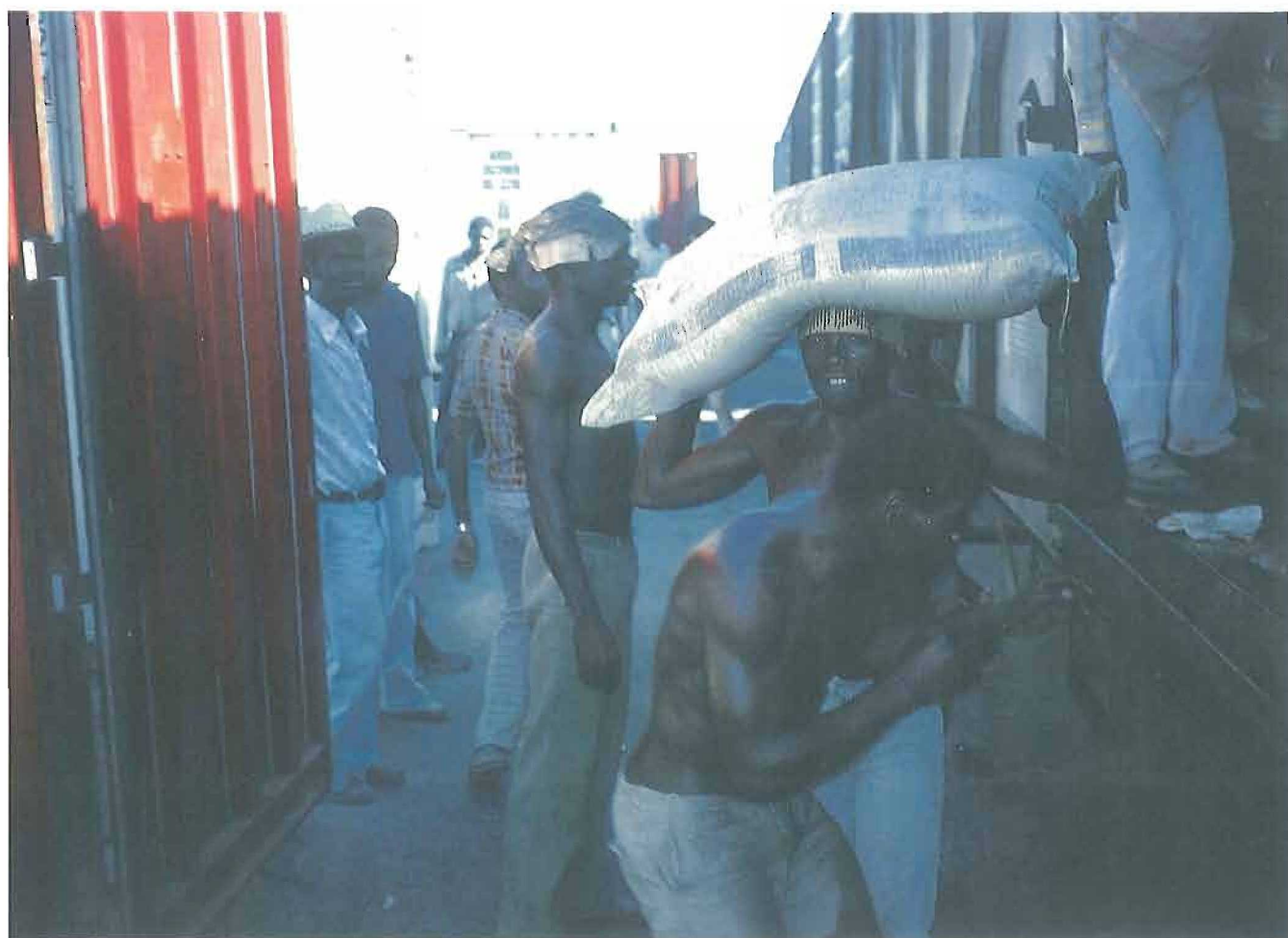




ENVIRONMENTAL
POLICY

Lasse Tallskog, Panu Kontio and Antti Leskinen

Environmental assessment in public promotion of exports and investments to developing countries



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Foreword

In late 1997 the Ministry for Foreign Affairs announced a call for tenders for a series of studies under the main heading: environmental matters concerning Finland's relations with development countries. Environmental Assessment in Public Promotion of Export and Investments to Developing Countries was one of the defined studies.

The study was launched by Diskurssi Ltd in association with the Finnish Environment Institute in 1998. The main researcher responsible for the work was Mr Lasse Tallskog from Diskurssi Ltd. Mr Panu Kontio contributed to the work as a co-writer and Dr Antti Leskinen participated in the teamwork in creating the framework for the study, giving advice and contributed to the formulation of the final conclusions.

Mr Markku Turtianen, Mr Jari Paldanius from Diskurssi Ltd gave their comments to the drafts throughout the work. Ms Outi Myatt-Hirvonen and Mr William Myatt-Hirvonen assisted with the English language.

Many thanks go to the staff of Leonia Corporate Bank, Finnfund, Finnish Guarantee Board and Ministry for Foreign Affairs, who gave us valuable information for the study. Also Mr Pekka Salminen from Ministry for Foreign Affairs provided us with valuable comments.

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List of abbreviations

CES	Country environmental strategy
CESI	Committee on Environmental and Social Impact
EA	Environmental assessment
EAP	Environmental action plan
EBRD	European Bank for Reconstruction and Development
EC	European Communities
ECU	European currency unit
EIA	Environmental impact assessment
EMMP	Environmental management and monitoring plan
EMS	Environmental management system
ESIB	Environmental and Social Impact Brief
ESIR	Environmental and Social Impact Report
EU	European Union
Ex-Im Bank	Export-Import Bank of the United States
FGB	Finnish Guarantee Board
FIM	Finnish mark
Finnfund	Finnish Fund for Industrial Cooperation Ltd.
IDB	Inter-American Development Bank
IFC	International Finance Corporation
LCA	Life cycle analysis
NGO	Non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
SEA	Strategic environmental assessment
UNEP	United Nations Environmental Programme
USD	U.S. dollar



Introduction

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1.1 Background to the study

Finland's relations with developing countries and the environment

According to the strategy of "Finland's Development Cooperation in the 1990's" (1993, 14), one of the most important goals of development co-operation is to prevent the global environmental threats by assisting developing countries in solving their environmental problems. The Decision-in-Principle on Finland's Development Cooperation (1996, 3) states that the Government will *"emphasise the importance of environmental considerations in all activity with a view to forestalling threats and creating conditions conducive to prosperity based on the sustainable use of natural resources"*.

Finland has committed to the world wide process of sustainable development which, according to the Finnish National Commission on Sustainable Development, has the goal to ensure the possibilities of good living conditions for the present as well as future generations. The Commission believes that achieving this goal requires adjusting the economic and material activities to the globe's natural resources and nature's tolerance. (Kestävä kehitys... 1995, 6-7.)

Channelling public funds from Finland to developing countries must contribute to sustainable development. This requires environmental considerations in the decision-making concerning the use of public funds. The Department for International Development Cooperation's Guidelines for Programme Design, Monitoring and Evaluation (1997, 5) state that assessment of environmental impacts and conflict resolution are important aspects in the strategic planning of development co-operation as well as in planning, implementation and evaluation of projects. Thus the obligation of the assessment of environmental impacts should also concern those forms of Finnish development co-operation that have the goal of not only promoting economic development and well-being in the recipient countries but also promoting Finnish exports and the internationalisation of Finnish companies. The goal of Finland's relationship with developing countries has been defined as the promotion of co-ordination and coherence in a manner which treats political issues, trade policy and development co-operation as a single entity (Decision-in-Principle... 1996, 2).

The promotion of exports and investments that is included in the development co-operation is a part of the public promotion of exports and investments. The Government promotes the operational conditions of Finnish companies in many ways all over the world. The most important means of promotion include publicly supported credits, interest subsidies and guarantees negotiated by financing institutions. The Government maintains a network of contacts which provides information and advice, and assists in financing research, studies and training. Co-operation with public authorities and minister level visits both aim at finding new fields of co-operation and establishing relations.

Finnish exports to developing countries have clearly increased during the recent years. In 1992 the exports to developing countries were approximately FIM 11 billion. In 1997 the exports were approximately FIM 30 billion which is 14,4 % of

Finland's total exports ¹. Finland's most important export markets in developing countries are East and Southeast Asia. For example last year the exports to Malaysia and Indonesia almost doubled compared to the year before. Exports to China increased by 41 % from previous year to a total of FIM 3,8 billion. The most important fields of exports to developing countries are metal industry and machinery and forest and chemical industry. (National Board of Customs 1996 and 1997.)

In 1996 Finnish companies invested in their subsidiaries and affiliates in the actual emerging countries worth FIM 1,2 billion, which is 75 % more than the year before (Finnfund 1997a, 7). The biggest investments have taken place in paper production, chemical and metal industry.

Finnish exports and investments to developing countries increase. Thus, the assessment and consideration of the environmental impacts connected with public export and investment promotion are a more and more important part of the strategy of Finnish relations with developing countries.

Environmental considerations and publicly funded promotion of exports

The capital flows from industrialised countries to developing countries have increased significantly in the 1990's due to a sharp increase in the private sector's investments and loans to developing countries. On the contrary, the real value of public financing to developing countries has declined rather than increased. In 1996 the private capital's share of international capital flows to developing countries was 86 %. Private capital has the key position in implementing sustainable development in both developing countries and globally. (French 1998, 170-172.)

However, the participation of public credit and guarantee institutions and other public organisations is still essential in many cases in order to arrange total financing for projects to developing countries (Finnish Guarantee Board 1998, 12). Thus, public financiers are able to influence on how ecological sustainability is considered in the investment projects to developing countries.

The leading industrial nations brought up the issue at the "Denver Global Economic Summit", a meeting of the G7 countries held in 1997. The declaration of the summit states: "...private sector financial flows from industrial nations have a significant impact on sustainable development world-wide. Governments should help promote sustainable practices by taking environmental factors into account when providing financing support for investments...". Also, the Finnish Government has declared that its policy is to support "integrating transboundary investments, trade and environmental policy so that they support each other and promote sustainable development" (Hallituksen kestävä... 1998).

The importance of environmental considerations in the operations of public financing institutions is increasing internationally. In the operations of development banks this can be noticed due to the fact that the environmental impacts of the operation to be funded are an essential factor influencing financing decisions. Also public export credit and guarantee institutions and commercial financiers pay more attention than earlier to the environmental risks of the operation to be funded. However, the lack of common rules for the industrialised countries slows down this development.

For example the OECD and the European Union have been expected to take some action regarding this issue. The OECD Trade Committee's Group on Export Credits and Guarantees has recently listed principles for taking environmental factors into account when providing official export credit support. The principles emphasise among other co-operation between stakeholders, maintaining the competitive position of the OECD countries' exporters, and the sovereign right of the buyers' countries concerning environmental issues. The Group also "...encourages consideration of the environmental impact of projects in buyers' countries" and, "...recogni-

¹ China is classified as a developing country in addition to the ones in the National Board of Customs' group of developing countries (National Board of Customs 1997,6).

ses the desirability of strengthening environmental considerations in risk assessment practices of export credit agencies..." (OECD 1998.) During the preparation for the Directive to Harmonise Medium- and Long-term Guarantee Operations enacted by the EU on May 7, 1998 (98/29/EC), it was suggested that environmental criteria would be set for the guarantees. However, no criteria are included in the final version of the Directive that was ratified in the Council of the European Union.

Also environmental organisations and other NGOs have paid attention to the support to public promotion of exports and investments. For example when the German government decided to guarantee exports that were directed to the Chinese Three Gorges Dam project, the NGOs launched a campaign to renew the principles of operation of the German export credit guarantee institution (Hermes). A group of NGOs from several countries appealed recently to the governments of industrialised countries and the OECD for the renewal of export credit and guarantee operations. The appeal demands for greater transparency and public participation, environmental assessment, social sustainability, common environmental and social standards in the activities of the institutions (Call of National... 1998).

The states role as a promoter, especially for the forest industry exports, has been emphasised (Ulvila 1998). The environmental organisation Friends of the Earth Finland demanded recently that the Finnish Guarantee Board and Leona Corporate Bank should not finance the construction of a paper mill in Indonesia that belongs to the Indonesian company April, a partner of UPM-Kymmene. According to the organisation the production of the mill will cause severe environmental damage. (Ympäristöjärjestö vaatii... 1998.)

1.2 The purpose, objectives and structure of the study

The purpose of this study is to investigate:

- 1) How environmental impacts are assessed in the public promotion of exports and investments to developing countries
- 2) How the assessment of environmental impacts that are caused by the publicly supported exports and investments can be developed.

In this study the concept of "public promotion of exports and investments to developing countries" is defined as governmental activities that have the goal of promoting exports and investments of Finnish companies to developing countries.

This study analyses how the environmental impacts caused by exports and investments are assessed in the preparation for decisions on the following forms of public promotion of export and investments:

- pre-mixed concessional credits and industrial and commercial co-operation (Finnfund and EIT appropriation) included in development co-operation and
- export credit guarantee operations.

The study is especially concerned with how the environmental assessment in general is organised. Individual cases are not analysed.

The framework for the analysis is based on a study of the international principles and tools of environmental assessment as well as on environmental assessment in similar types of decisions made by foreign financing institutions. The following five financing institutions are used as examples:

- European Bank for Reconstruction and Development (EBRD)
- Export-Import Bank of the United States (Ex-Im Bank)
- Inter-American Development Bank (IDB)
- International Finance Corporation (IFC)
- Overseas Private Investment Corporation (OPIC)

The selection of the financing institutions used as examples is based on the following criteria:

- 1) The finance instruments they use are more or less comparable with the ones used by the Finnish institutions included in this study.
- 2) Their procedures represent good quality assessment tools and their procedures and practises are well-developed.
- 3) They have provided published information of their assessment requirements and tools in a form of operational guidelines, handbooks etc.

Based on the analysis of the foreign examples and the Finnish subjects of the study, the possibilities to develop and enhance the assessment of environmental impacts in the Finnish financing institutions are presented.

The study is based on Finnish and foreign documents as well as on discussions with Finnish experts. A list of the persons consulted for the study is in Annex 1. All the Finnish subjects of the study have also commented on the draft versions of the analysis concerning them.

The structure of the study is described as follows. Chapter 2 presents the starting points for environmental assessment and studies the environmental impact assessment in development co-operation and in developing countries. Chapter 3 studies environmental considerations in the operations of the financing institutions and presents the assessment practices of the foreign institutions used as examples. Based on the two previous chapters, chapter 4 describes the most important issues in environmental assessment that a financing institution should take into account in its decision-making. Further, based on this, the framework for the analysis of the Finnish cases is formed. Chapter 5 presents and analyses the Finnish subjects of the study. Chapter 6 contains a summary and ideas for development.

2

Environmental Assessment in Managing Development Projects

2.1 Introduction

The assessment of environmental impacts in various planning and decision-making situations is an internationally accepted principle from large management schemes to quality management of small businesses. In this study we refer to the term environmental assessment (EA) as a systematic process which provides a framework for gathering, analysing and documenting information and views regarding the impacts of projects. Within EA the importance of the impacts and the scope for enhancing, modifying or mitigating them can be evaluated. Also recommendations and action plans can be provided. (Environmental Assessment: A Business... 1995, 6.)

Defined in this way, EA covers a wide range of tools tailored to specific planning and decision-making situations. Several tool-combinations can be used during the life cycle of a project. In this chapter we focus especially on environmental impact assessment (EIA) and briefly on environmental audit, environmental management systems (EMS), environmental monitoring and mitigation plans and life cycle assessment (LCA).

These tools for environmental assessment follow the internationally recognised fundamental principles of environmental protection and their application. They include for instance the principle of prevention of adverse impacts, the principle of integration of environmental considerations, the life cycle approach, the prevention of pollution at source, the polluter pays principle and the precautionary principle.

EA is one of the means to integrate considerations of environmental impacts with activities in all sectors of the society and which all actors are responsible for. Sharing responsibility in this way is a central part in the efforts toward sustainable development (e.g. Our Common Future 1987).

The Final Act of the United Nations Environment and Development Conference held in Rio de Janeiro in the summer of 1992 contains significant political commitments concerning among other EA. Especially the 17th principle of the Rio Declaration concerning the environment and development and the 8th Chapter of the action plan Agenda 21 highlights the significance of environmental assessment. (UNCED... 1993.)

2.2 Environmental assessment tools

Environmental impact assessment

Environmental impact assessment (EIA) is a tool which is normally applied to the planning phase of large development projects. It is a process which studies and presents the alternatives, impacts and possibilities for mitigation of adverse impacts of projects, plans and decisions that have significant impacts in the nature, man-made environment and society, as well as different parties' opinions to them (Leskinen et al. 1991, 1).

EIA was first applied in federal projects in the United States from 1970. Currently EIA is in use in most of the industrial countries and in many developing countries. For example the European Union has the EIA Directive (85/337/EEC) which came into force in 1988.

In Finland the Act on Environmental Impact Assessment Procedure (468/94) came into force on September 1, 1994. The Act contains provisions for assessment procedure of mostly new large construction projects that have significant adverse environmental impacts, for example motorways, power plants and paper mills.

In addition to the actual assessment procedure, the law requires that the authorities must study and assess the environmental impacts when they prepare strategic plans and programs that may have significant environmental impacts (EIA Act, section 24). This concerns also plans and programs in development co-operation. Additionally, according to the Act the developers of even small projects must be adequately aware of the environmental impacts of their projects (EIA Act, section 25).

The international study of the effectiveness of EIA (Sadler 1996, 45) indicates clearly that EIA can and does make a difference to decisions taken and that it supports environmentally favourable actions in implementing development.

According to North American and European experiences, carrying out an EIA entails an analysis of possible alternatives in the design and siting of projects. This results in an overall improvement in the general state of the environment and location of projects. A well-designed project can also minimise project-induced health risks and the associated costs of treatment or compensation. EIA brings along better compliance with environmental standards which reduces disruption and damage to the environment and reduces the likelihood of fines and penalties. Savings in capital and operating costs can escalate if environmental problems have not been considered in the beginning and they require rectification later. This may involve adopting some expensive mitigation measures or reducing the size or output of the project. The chances of expensive late changes can be minimised by carrying out an EIA at the earliest stages of the project cycle. EIA reduces time and costs of approvals of development applications. If all environmental concerns have been taken into account before submission for project approval, then it is unlikely that delays will occur. Project acceptance by the public will increase. This is achieved by public involvement throughout the process (UNEP Environmental...1996, 77-78).

EIA might include other EA tools, or they can be used in conjunction with the EIA. For example such projects that involve significant accident risks, a risk or hazard assessment might be carried out as a part of the EIA. Sometimes post-project analysis is included. It refers to research and activities, which take place after a project has been completed to see that the EIA has been properly carried out. This enables learning for further assessments. (UNEP Environmental... 1996, 603.)

Environmental audit

Environmental audit is a study for checking, testing or evaluating relationships between existing installation or facility and the environment (Bisset 1996). It can be applied to find out the existing environmental problems of an industrial installation or to find out the environmental conditions on a potential site. An audit also determines how the measured parameters are in compliance with the regulatory requirements and how effectively the environmental management system functions. (UNEP Environmental... 1996, 603.) An audit is useful for checking the environmental liabilities and potential risks of an investor in cases where a purchase of an investment is to be made.

Environmental management systems

Environmental management system (EMS) is a tool for systematically managing environmental issues of a company or a site. It consists of an environmental policy, environmental objectives and targets, environmental program, a monitoring system of environmental aspects and as well as periodical environmental reports.

Monitoring and mitigation plans

Monitoring involves repeated observation, according to a pre-determined plan of one or more elements of the environment to detect their characteristics. A mitigation plan or an environmental action plan is produced to show how the environmental problems caused by the project can be solved. Sometimes implementation of such a plan is used as a condition for the decision. Monitoring and mitigation can be planned as a part of EIA and implemented afterwards.

Life cycle analysis

Life cycle analysis (LCA) is an assessment of environmental impacts of a product from "cradle to grave" i.e. from extraction of raw materials to the final disposal as waste. LCA can be used to compare the environmental sustainability of optional products.

2.3 Environmental impact assessment in development assistance and developing countries

Development assistance

Most of the development aid agencies use EIA in preparation of development projects and have guidelines and procedures for EIAs (OECD 1996a). USAID was the first one of the bilateral agencies to introduce EIA in 1976 (USAID 1988). Currently for example all Nordic development co-operation authorities have included environmental impact assessment as a part of the decision-making concerning development co-operation projects (e.g. Danida 1994, NORAD 1988-95, FINNIDA 1989).

In the Finnish development co-operation, the goal of environmental impact assessment has been included in the general guidelines for project preparation, evaluation and post-evaluation of the Department for International Development Cooperation since 1985. In 1989 the Department introduced the Guidelines for Environmental Impact Assessment in Development Assistance (draft) (FINNIDA 1989). The guidelines are to be applied in all bilateral development co-operation projects i.e. also for example in subsidised credit projects. (Salminen 1992, 4-7.)²

Many of the multilateral development institutions e.g. the EU have also adopted the routine of EIA into their development assistance (Commission of the European... 1993).

The degree of formalisation of the procedure and requirements vary to some extent from one agency to another. For example OECD promotes coherence among its members to harmonise the requirements. (OECD 1992, OECD 1996a.)

Developing countries

Adopting EIA has progressed extremely slowly in the developing countries. These countries have general environment-related laws and regulations, which can be used for EIA purposes. Their effect has been very limited in the sense of environ-

² The status and role of the draft guidelines seem to be unclear in the implementation of development co-operation in practice.

mental protection because of serious technical, administrative and political constraints. In fact, only a few developing countries use the laws and regulations to demand EIA. Many developing countries also have EIA legislation, but only 19 out of the 121 sovereign third world countries are known to have put in place the necessary administrative, institutional and procedural frameworks for EIA implementation. (Ebisemiju 1993, 247.)

However, Bisset (1996) notes that internationally there is a trend towards introducing national EIA systems through legal instruments such as specific laws or regulations under existing framework of environmental laws. This is due to the movement from centralised economic planning toward a reduction in government intervention and control of the economy. (Bisset 1996.)

Reasons for the slow adoption of EIA are unfamiliarity with the EIA concept itself and its role in the planning process, unfamiliarity with EIA methodologies and techniques, shortage of indigenous staff with experience in EIA and lack of baseline data and appropriate technology for EIA (Ebisemiju 1993, 248-249).

It has been argued that the gap between intent and performance of EIA is due more to legislative, administrative, institutional and procedural deficiencies in the EIA systems of the developing countries than to the technical issues (Ebisemiju 1993, 248-249).

Many developers in developing countries face a potential problem in implementing EIAs when development projects are financed or co-financed by multi- or bilateral development agencies. In these cases the project is often required to comply with the requirements of both the recipient country and the foreign development agency. If these EIA requirements are in contradiction there is a potential for duplication, wasted effort and confusion. In cases of co-financing the requirements of financiers might also differ.

China, Indonesia and India receive a large portion of Finnish development aid and investments financed by Finnish institutions. They have formal EIA systems statuted by legislation and governmental institutions to administrate EIA. Of these countries only China has provisions for a proper EIA procedure. The main features of EIA systems of these countries are described in Annex 2.

3

Environmental Assessment in Financing Institutions

3.1 Financing institutions and the environment

The Fifth Environmental Programme of the European Union states that: *"Financial institutions which assume the risk of companies and plants can exercise considerable influence - in some cases, control - over investment and management decisions which could be brought into play for the benefit of the environment"* (Towards Sustainability 1993, 27). For example, banks within the EU have total assets over ECU 11,000 billion, total primary capital of ECU 440 billion and in 1996 generated profits of some ECU 69 billion (Role of Financial... 1997, 8). Thus they have an enormous influence on the economy and its environmental impact.

Financing institutions in general have been slow to face up to their environmental liabilities, opportunities, and responsibilities. However, particularly from the beginning of 1990's environmental issues have gained attention in the financing business. There are many reasons for this. On one hand the financing institutions have become more aware of the environmental lender liability. This means that since much lending is asset backed, reduction in asset value through environmental liabilities could have a major effect on the quality of the lending portfolio. Banks can also, under certain circumstances, be made directly liable for their borrowers' environmental problems e.g. extremely costly cleanup of contaminated sites. The market driven demand for taking environmental issues into consideration has also affected companies and their financiers. On the other hand environmental issues offer interesting business opportunities for financing institutions. (Shmidheiny and Zorraquin 1996, 99-108.)

In practice, various financing institutions interact with the environment in a number of ways:

- as investors; supplying the investment which always affects the environment.
- as innovators; developing new financial products to encourage environmentally sound development e.g. in energy efficiency.
- as evaluators; pricing risks and estimating returns, for companies, projects and others.
- as powerful stakeholders; as stakeholders and lenders they can have considerable influence over management of companies.
- as polluters; while not "dirty" industries, financing institutions do consume considerable resources.
- as victims of environmental change; e.g. of the climate change. (Role of Financial... 1997.)

Development financing institutions that focus particularly on developing countries have been the most active banks to incorporate environmental considerations into their operations (Salter 1995). EBRD, IDB and IFC, that are presented in chapter 3.2, provide a good overall picture of the situation of the development banks.

Since the early 1990's commercial financing institutions have also begun to develop initiatives on the environment. To date environmentally active commercial banks have focused on two areas. Firstly, many have made considerable prog-

ress in developing internal environmental management systems to reduce their own environmental impact. For example, Swiss banks have been active in this area (Environmental Management in... 1998, Knecht 1998). Secondly, many banks include some environmental assessment into their credit assessment process although this tends to be focused on liability. A smaller number of leading banks have taken their activities further and have started to incorporate wider environmental assessment into their decision-making process, including developing checklists and other procedures. (Role of Financial... 1997, 9-10.)

The most important international effort in the area of private banking is The United Nations Environmental Programme's Financial Services Initiative³. The initiative established in 1992 promotes the integration of environmental considerations into all aspects of the financial sector's operations and services. A core part of the initiative is "Statement by Financial Institutions on the Environment and Sustainable Development" which over 100 bank have signed. (UNEP 1998.)

3.2 Environmental assessment in selected financing institutions

3.2.1 European Bank for Reconstruction and Development

Introduction

The European Bank for Reconstruction and Development (EBRD) was established in 1991 to foster the transition towards market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries. EBRD has 60 members (58 countries including Finland, the European Community and the European Investment Bank).

EBRD operates both in the private and the public sector. It merges the principles and practices of merchant and development banking, providing funding for private or privatisable enterprises and for physical and financial infrastructure projects needed to support the private sector. It works in close co-operation with international financing institutions and other international organisations.

The types of finance it offers include loans, equity investments and guarantees. By December 31, 1996, the bank had approved 450 projects: these involved ECU 9.96 billion of EBRD's own funds and were expected to mobilise an additional ECU 20.1 billion. Seventy-three per cent of total approved funding was to private sector projects. (EBRD 1998.)

Environmental policy

EBRD's founding agreement states that the bank is to "*promote in the full range of its activities environmentally sound and sustainable development*". The ways in which EBRD, according to its environmental policy (1996a), promotes such development include:

Sector and country strategies. Each EBRD sector and country strategy contains a section, which describes the environmental implications of the bank's proposals.

Environmental assessment. EBRD operations undergo environmental assessment both to help the bank decide if an activity should be financed and, if so, the way in which environmental issues should be incorporated in operation financing, planning and implementation.

³ The Financial Services Initiative's web site is www.unep.ch/eteu/envr-fin.htm

Environmental standards. EBRD operations are structured to meet national and existing EU environmental standards or, where EU standards do not exist, national and the World Bank standards. If these standards cannot be met at the time, the operations will include a programme for achieving compliance with them.

Environmentally oriented operations. EBRD develops its operations with primarily environmental objectives, including investments in environmental infrastructure, such as water supply systems, waste-water management, and solid and hazardous waste management, in energy (district heating, energy efficiency and renewable energy) and in urban transport.

Environmental training and publications. To improve professional expertise in the environmental sector of the countries of Central and Eastern Europe EBRD has a programme of environmental training. The bank also produces publications relating to its environmental activities.

Public participation. EBRD believes that effective public participation is a way of improving the quality of operations. The bank clients will have to follow EBRD's public participation procedures.

Provision of information. The bank implements procedures to ensure that information is provided to interested parties concerning the bank's environmental activities.

Environmental assessment (EBRD 1996b.)

All of the bank's investment and technical co-operation activities undergo environmental assessment as a part of the overall financial, economic, legal and technical due-diligence which is carried out. EBRD's environmental assessment work seeks to ensure that each investment operation is environmentally sustainable, incorporating principles such as "polluter pays". The bank adopts the same principles of environmental assessment on the financing that it intermediates as it adopts when it directly funds operations.

Environmental assessment is, essentially, the responsibility of the project sponsor. The bank's role is to determine the type of assessment tool needed, to provide guidance on how it should be conducted, to review the results, and to ensure that findings are properly reflected in operation financing and implementation.

The most important assessment tools are environmental impact assessments (EIA), environmental analysis, and environmental audits.

The bank screens all the proposed projects and categorises them to level A, B or C according to potential environmental impact. Level A projects require full EIA, B require more limited environmental analysis and level C do not require any study. In addition the bank requires environmental audits, which are carried out on existing industrial facilities to determine environmental liability issues.

An environmental action plan (EAP) is prepared as the result of the environmental studies. Its purpose is to obtain an agreement concerning key environmental performance criteria, corrective actions, and to define monitoring requirements.

After that the results are assessed and if proved viable, the project goes forward to the bank's operation committee and to the board for the final recommendation. In order to ensure compliance of the environmental assessment, the bank incorporates EAP into the loan agreement.

In addition to environmental assessments on specific operations, the bank may also carry out strategic environmental assessments (SEA). SEA is a process of evaluating the likely environmental consequences of a proposed strategic plan or programme before it is approved.

3.2.2 Export-Import Bank of the United States

Introduction

The Export-Import Bank of the United States (Ex-Im Bank) is an independent U.S. Government agency that helps finance the overseas sales of U.S. goods and services.

The bank provides guarantees of working capital loans for U.S. exporters, guarantees the repayment of loans or makes loans to foreign purchasers of U.S. goods and services. The Ex-Im Bank also provides credit insurance that protects U.S. exporters against the risks of non-payment by foreign buyers for political or commercial reasons. The Ex-Im Bank does not compete with commercial lenders, but assumes the risks they cannot accept. The bank has supported more than USD 300 billion in U.S. exports. (Ex-Im Bank 1997.)

While the Ex-Im Bank is not a foreign aid or development agency, its programs often help U.S. exporters participate in development projects. The Ex-Im Bank has co-financed projects with the U.S. Agency for International Development, the World Bank, and regional development banks. (Ex-Im Bank 1997.)

Environmental policy

The Ex-Im Bank's Charter, revised by Congress in October 1992, requires the establishment of environmental assessment procedures consistent with the Ex-Im Bank's overall export promotion objectives. The charter also authorises the board of directors to grant or withhold financing support after taking into account the beneficial and adverse environmental effects of proposed transactions.⁴ (Ex-Im Bank 1996a.)

To provide guidance to exporters, the bank has standards, which address a particular industrial sector activity ranging from thermal power plants to pulp and paper mills, for air quality, water use and quality, management of hazardous and toxic materials and waste, natural hazards, socio-economic and socio-cultural effects, ecological effects and noise. (Ex-Im Bank 1996a.)

Environmental assessment

The Ex-Im Bank has guidelines for environmental assessment (Ex-Im Bank 1996b).

Applicants are required to provide environmental information satisfactory to the Ex-Im Bank in support of their applications. Applicants for limited recourse project finance and long-term loans and guarantees must complete and return the "Environmental Screening Document", with their applications to the Ex-Im Bank.

Based on the information provided, the Engineering & Environment (E&E) Division will screen each project into three categories to determine the extent of environmental assessment required under the guidelines.

In those projects within Category A, the Ex-Im Bank will not conduct any environmental assessment because these projects do not involve case-specific environmental issues.

Category B includes projects that will be constructed near sensitive areas such as: nationally-designated seashore areas, areas reserved for ethnic minorities or indigenous peoples, habitat of endangered species etc. For these projects the Ex-Im Bank requires an environmental assessment that addresses the impact upon the location.

Category C includes all projects that are not classified as Category A or B. The E&E staff will conduct a case-by-case assessment of all projects included in Category C based on information inquired from the applicant.

⁴ The Ex-Im Bank announced on May 1996 that it would indefinitely suspend its provision or support for U.S. exports to be used in Three Gorges Dam project, because of the bank's concerns about the project's environmental consequences (Berlack and Hembrey 1996).

In cases requiring an environmental assessment, the applicant may submit a copy of an environmental assessment already prepared for the project, e.g., for international financing institutions or host governments.

The E&E staff will review the environmental assessment, request further information as necessary from the sponsors or exporter, analyse all relevant information, and prepare an environmental statement of the project. It may include recommendations to the board of directors with respect to the Ex-Im Bank support.

The Ex-Im Bank reserves the right to require the sponsor to bear the expense of outside specialists to prepare an independent report with respect to any element of the environmental assessment of the project.

If a project does not meet all the Ex-Im Bank's environmental guidelines, financing may be conditioned on the implementation of mitigating measures.

Once a week, the Ex-Im Bank compiles a list of major projects for which the Ex-Im Bank has received an application for final commitment. This list will be published.⁵ Interested parties may provide information to the E&E staff at the Ex-Im Bank about potential environmental issues or other problems raised by such projects. The Ex-Im Bank will review and take into account the environmental information provided but will not be able to respond to the person or group providing the information.

3.2.3 Inter-American Development Bank

Introduction

The Inter-American Development Bank (IDB) is an international financing institution created in 1959 to help accelerate the economic and social development in Latin America and the Caribbean. The bank has 46 member countries including Finland. Its cumulative lending and technical co-operation amounted to more than USD 81 billion by the end of 1996. The IDB Group also includes the Inter-American Investment Corporation and the Multilateral Investment Fund, which promote private sector development in the region. (IDB 1998a.)

Environmental policy

The bank has operational policies, which are intended to provide operational guidance to the staff in assisting the bank's borrowers. All of its operational policies are also available to the public through the Public Information Center and the bank's web site on the Internet⁶.

According the bank's environmental policy (IDB 1998b) the objectives of IDB in environmental management are:

- *"To assure that in all projects financed by the bank, environmental aspects are considered and that appropriate measures are taken to avoid adverse environmental impact, with due attention to economic and social costs and benefits."*
- *"To co-operate with member countries through loans and technical co-operation for the financing of projects designed to improve or preserve the environment."*
- *"To assist member countries in identifying environmental problems and finding solutions to them, as well as developing projects to improve the environment."*
- *"To assist in the development, transfer and utilisation of science and technology in the field of environmental management and to help strengthen national institutions in environmental management."*

⁵ The address of Ex-Im Bank's web site is www.exim.gov

⁶ The address of IDB's web site is www.iadb.org/ENGLISH/index_english.html

Environmental assessment (IDB 1998c.)

To ensure that all operations financed by the bank are environmentally and socially sustainable the bank has the Committee on Environmental and Social Impact (CESI) and its environmental assessment process. The bank also has an environment division, which e.g. provides guidance on environmental assessment and technical advice to the bank's project teams and supports CESI.

As a part of the identification phase of any operation, the project team must determine the scope of environmental and social impact issues. The team prepares the Environmental and Social Impact Brief (ESIB), which, once approved by CESI, establishes the environmental assessment requirements for the operation. ESIB includes among other things

- whether an environmental impact assessment (EIA) or other study is required and, if needed, its scope and analytical requirements
- whether an environmental and social impact report will be prepared
- in cases not requiring further study, recommended measures proposed for inclusion in the operation in order to mitigate impacts and enhance quality with respect to environmental and social considerations.

ESIB is made available to the public. Operations under USD 3 000 000 will not require a formal ESIB.

The preparation of environmental impact assessment and other studies is the responsibility of the project proponent. EIAs will vary in scope depending on the operation's characteristics. In general, they include a complete analysis and evaluation of the potential or expected environmental and social impacts of the operation and its alternatives, options for preventing and mitigating the adverse impacts and monitoring requirements.

Some operations may require environmental and/or social impact studies of very limited scope. These studies will be identified on a case by case basis.

The bank requires that borrowers:

- employ reasonable consultation procedures to elicit the informed opinion of concerned local groups, and take their views into account during project preparation and implementation, especially during the scoping and draft phases of environmental impact assessment and
- provide evidence of compliance with national legislation regarding public consultation.

In accordance with the bank's policy on information disclosure, impact assessment studies submitted to the bank are made directly available to the public.

The Environmental and Social Impact Report (ESIR) is the bank's statement about projects' environmental and social feasibility, prepared by the bank's project team based on its own analysis of the findings and recommendations of the EIA or other required studies. ESIR is also made available to the public.

The bank also monitors environmental components of projects execution and evaluates the effectiveness of environmental and social measures.

In addition to environmental assessment on specific operations, it is possible to assess the environmental situation in borrowing member country and prepare a country environmental strategy (CES). CES would describe key factors or areas in the country's environmental policy and management as well as the effectiveness of environmental law, regulations and institutions, specific environmental constraints to the country's development strategies etc. CES documents can be utilised as the general framework to facilitate environmental assessment of individual operations in that country.

There are also certain types of the bank's policy-based operations for which environmental and social impacts cannot be established with sufficient accuracy prior to the time of approval (e.g. sector and global lending operations, sector reform and privatisation). These operations require assessments that address general environmental policies and procedures focusing on measures to improve the management of environmental and social impact issues during implementation.

3.2.4 International Finance Corporation

Introduction

The International Finance Corporation (IFC) is a member of the World Bank Group. IFC was established in 1956 to encourage private sector activity in developing countries. It does this through financing private sector projects, helping companies in the developing world to mobilise financing, and providing advice and technical assistance. To be eligible for IFC financing, projects must be profitable for investors, benefit the economy of the host country, and comply with IFC's environmental guidelines. IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world. (IFC 1998.)

IFC has 173 member countries including Finland. IFC's corporate powers are vested in its board of governors, which delegates most of its powers to the board of directors which reviews all projects. The environmental activities are the responsibility of the environment division. (IFC 1998.)

Environmental policy⁷

IFC has many policies that relate to the environment. Relevant policies consider following subjects: environmental assessment, disclosure of information, natural habitats, pest management, indigenous peoples, management of cultural property, involuntary resettlement, forestry, safety of the dams, and projects on international waterways.

Environmental assessment

The IFC policy on environmental assessment (EA) states that all projects proposed for IFC financing require an EA to ensure they are environmentally and socially sound and sustainable. EA is initiated as early as possible in project processing and is integrated closely with the economic, financial, institutional, social, and technical analyses of a proposed project. Depending on the project, a range of tools can be used to satisfy EA requirements: environmental impact assessment (EIA), environmental audit, hazard or risk assessment, and environmental action plan (EAP). EA applies one or more of these instruments.

The proposed projects are screened into category A, B, or C according to the potential environmental impact.⁸ IFC also has separate category FI for investments in financial intermediaries, which may fund a variety of subprojects with potential environmental impacts. Level A projects typically require EIA and also EAP, B require more limited EA and level C do not require any further EA action. For category FI projects IFC has specific requirements.

⁷ IFC is undertaking a major reform of its environmental, social and information disclosure policies. IFC released the draft policies for public comment on January 30, 1998. IFC's environmental policy and environmental assessment process presented in this study are based on the draft dated January 30, 1998 (IFC 1997 a and b).

⁸ There are also several types of manufacturing, trade activities and business ventures that IFC does not finance at all. These types of projects are compiled in a specific prohibitions-list.

In fiscal year 1996, a total of 264 projects were approved of which 15 were category A projects, 135 category B, 72 category C and 42 FIs.

The project sponsor is responsible for carrying out the EA. IFC advises the sponsor on IFC's EA requirements. For a category A project, the project sponsor is also responsible for preparing an EA report. IFC reviews the findings and recommendations of the EA to determine whether they provide an adequate basis for processing the project for IFC financing. The findings and results of category B EA are described in the environmental review summary, which is prepared by IFC. The World Bank's Pollution Prevention and Abatement Handbook describes pollution prevention and abatement measures and emission levels that are acceptable to IFC.

For all category A projects and also, as appropriate for category B projects during the EA process, the project sponsor should consult project-affected groups and local non-governmental organisations about the project's environmental aspects and takes their views into account. The project sponsor should also provide relevant material (e.g. the draft EA report) prior to the consultation in a form and language that are understandable and accessible to the groups being consulted. IFC makes the category A EA report and category B environmental information available through the World Bank InfoShop.

During project implementation, the project sponsor should report on compliance with measures agreed with IFC on the basis of the findings and results of the EA. Issues to be reported include: status of implementation of EAP e.g. mitigation measures and the findings of impact monitoring.

3.2.5 Overseas Private Investment Corporation

Introduction

The Overseas Private Investment Corporation (OPIC) is an independent U.S. Government agency that assists U.S. companies investing in some 140 emerging economies around the world. OPIC assists investors through:

- financing of businesses through loans and loan guarantees
- supporting private investment funds which provide equity for U.S. companies investing in projects overseas
- insuring investments against a broad range political risks and
- engaging in outreach activities designed to inform the American business community of investment opportunities overseas. (OPIC 1998a.)

A self-sustaining agency, OPIC has recorded a positive net income for every year of operation, operates at no net cost to the U.S. taxpayer, and has accumulated reserves of more than USD 2.6 billion. Since its inception, OPIC has supported investments worth nearly USD 84 billion, generated USD 43 billion in U.S. exports. (OPIC 1998a.)

Environmental policy

OPIC is required by statute to conduct an environmental assessment of every project proposed for financing or insurance that would significantly affect the environment of the host country. It may decline support for projects that, in OPIC's judgement, would have an unreasonable or major adverse impact on the environment of the host country. EA requirement extends to subprojects undertaken by OPIC-supported investment funds and on-lending facilities. (OPIC 1998b.)

For most industrial sectors, OPIC expects the project to meet the World Bank standards and standards of international organisations (e.g. World Health Organisation) where applicable. Of particular concern are adverse effects on tropical forests, national parks, protected areas and endangered species, as well as on the health and safety of employees and the public. (OPIC 1998b.)

Environmental assessment

OPIC has EA guidelines, which are seen as a developing and evolving document rather than a static book (OPIC 1998b).

EA-documents should be provided to OPIC as early as possible in the application process. It enables OPIC to identify environmental issues that may require additional attention before the EA can be considered to be complete.

Certain types of projects are ineligible for OPIC's support. Determination is based on a complete list of categorical prohibitions.

The type of EA required for a particular project, including the timing and the level of effort involved, depends upon the nature of the project. Therefore OPIC's Environmental Unit screens each project to one of the following categories:

Category A: Projects in this category can be expected to have potentially significant, diverse and irreversible environmental impacts. Such projects can be readily identified on the basis of industry sector or site sensitivity. They require a full-scale environmental impact assessment or an initial environmental audit. All projects in this category are subject to public consultation and disclosure.⁹ The applicant must sign a waiver agreeing to public release of their assessment documents. Otherwise the consideration of the application can not proceed. These projects are also subject to host country notification prior to final commitment.

Category B is for projects, which are likely to have adverse environmental impacts that are less significant than those for category A projects. These project are subject to internal OPIC assessment based on information supplied by the applicant.

Category C projects do not have material impacts on the environment and are not subject to EA

In addition to the requirements in different categories environmental management and monitoring plan, environmental remediation plan or major hazard assessment might be required.

In all cases, the cost of preparing the studies is borne by the applicant. OPIC might engage an independent consultants to review all or part of the EA materials submitted by the investor, to undertake an original assessment of the project and/or to undertake a site visit as part of the environmental review process. The associated costs are reimbursed from the applicant.

OPIC has clearly documented criteria for eligibility determinations and grounds for declining assistance to projects in case of unreasonable or major environmental, health or safety hazards.

In addition to the mitigation plans submitted by the applicant, OPIC may require the application of additional mitigative measures in order to ensure that a project will not pose an unreasonable or major environmental, health or safety hazard. Implementation of those measures is normally as conditions in contract documents.¹⁰

⁹ The list of applications in process is published in Internet. The address of OPIC's environmental website is www.opic.gov/SUBDOCS/ENVIRON.HTM

¹⁰ In April 1995 OPIC decided to cancel the USD 100 million guarantee that it had granted to Mc Moran Copper and Gold Company because the company violated the environmental conditions set in the contract in Indonesia (French 1998, 184).

The Main Elements of Environmental Assessment (EA) in Financing Institutions

4.1 The purpose and starting points of EA

Based on the examples of the financing institutions described in the previous chapter, this chapter outlines the most important aspects related to the application of environmental assessment (EA) in the decision-making of financing institutions.

Environmental sustainability is one of the main goals of the operations of all the financing institutions presented in the previous chapter (Chapter 3). This goal has been clearly stated in their general provision, for example in the charter of foundation. Additionally, the institutions usually have a written environmental policy that defines the environmental goal and its implementation.

Implementing the goal is pursued by way of the environmental assessment process. EA functions as a decision-making tool with the purpose to improve decision-making and to ensure that the project under consideration is environmentally sound and sustainable. The EA process of a financing institution must be able

- 1) To identify the environmental impacts related to financing decisions and the possibilities for avoiding or mitigating adverse impacts
- 2) To transmit the results of the assessment to decision-making.

EA processes are usually integrated in the normal application handling process and do not have a separate status. EA processes are normally set in procedural guidelines, operational directives or other documents approved by the board of the institution. Also, the guidelines are public and easily available for those interested in them, for example from the Internet. Organising and implementing an EA in an institution also requires adequate resources. This is reflected at least in that the institutions used as examples employ full-time environmental experts.

In addition to project-specific EA processes of the institutions used as examples, EBRD uses strategic environmental assessments (SEA). SEA is a process of evaluating the likely environmental consequences of a proposed policy, strategic plan or programme before it is approved. The policy, plan or programme may be related to an economic sector such as transport, energy, forestry, etc. or it might be related to a geographical area or region. The main benefits of SEA is that it allows for a consideration of more far-ranging and cumulative impacts and broader types of alternatives than a project-specific EIA would provide.

Who participates in the assessment?

When EA is being applied all the environmental impacts of a project are not known or cannot be predicted because usually there is not enough time or resources available. At the different stages of an EA process, definitions and choices based on value judgements must be made as well as simplifying assumptions and solutions based on uncertain or insufficient scientific knowledge (see Box 1, next page). Value judgements mean that for example conflicts related to the significance of impacts cannot be resolved without controversy, solely based on facts. The minor decisions made at the different stages of an EA process influence essentially the contents of the information produced as a result of the process.

Thus the choices made in EA and the justifications for those choices must be clearly stated and the different values and points of views must be able to be transmitted to the EA process as undisturbed and unbiased as possible. In order to transmit the different stakeholders' views, the participation of interest groups is needed. (Leskinen et al. 1991, 2-3; Salminen 1992, 15-19; Tallskog 1992, 23-24; Beattie 1995.)

Box 1. In some respects subjective decisions related to the different stages of the EA process

(Tallskog 1992, 25)

The decision on the need for an EA

The definition of scope including alternatives and impacts that are considered significant

The selection of the tools to be used in the assessment

The evaluation of the significance of the impacts

The decision on the need for mitigation of the impacts and on the extent of the impacts

The decision on the adequacy of the information produced in the assessment

The decision on the acceptability of the project

Stakeholders are those parties that are directly affected by or have an interest in the project and/or its environmental impacts. These include at least:

- local people and communities likely to be affected by a project
- national and local governmental agencies with the responsibility for the management of natural resources and well-being of the people likely to be affected by a project
- NGOs active in the local area or with an interest in natural resources or social well-being and
- the interested public in the country of the financing institution.

In all the institutions used as examples, the EA process include obligatory requirements for the participation of the potentially affected citizens and other stakeholders (see Table 1, next page). The significance of the participation arrangements is clearly increasing in the EA processes of the institutions used as examples. This can be noticed, for example, in that the most important changes in the new draft EA process of IFC and OPIC are related to the strengthening of the participation arrangements.

The basic requirement for the effective participation is open information about the project. Thus, most institutions have regulations concerning the disclosure of the environmental information of a project.

Status of stakeholder participation in EA process	
EBRD	Project sponsor must ensure that all national requirements for public consultation in the country where the operation will take place are met. In addition, the bank's own public consultation requirements will be identified in the environmental screening phase.
Ex-Im Bank	Interested parties may provide information to the Ex-Im Bank about environmental issues of a project.
IDB	The bank requires reasonable consultation procedures to elicit the informed opinion of concerned local groups, and take their views into account during the environmental assessment process. The project sponsor must also ensure that all national requirements for public consultation in the country where the operation will take place are met.
IFC	Public consultation at least twice during the EA process.
OPIC	Interested parties may provide information to OPIC about environmental issues of a project. A 60 day public comment period to review a project's environmental impact assessment or initial environmental audit.

Table 1. The status of stakeholder participation in EA of foreign institutions used as examples. The requirements concern at least the projects that have significant environmental impacts and that usually require an EIA.

What kind of environmental impacts are assessed?

The environmental impacts caused by projects might cause a chain of impacts. Interactions between the impacts might also result in new impacts. The direct impacts on the natural environment can cause indirect social, cultural or economic impacts which again might affect the use of natural resources and ecosystems (see Box 2).

Box 2. An example of chain of impacts and interactions between impacts in a water resource development project (Bisset 1996)

A water resource development caused changes in the hydrological regime of the river downstream of the project. The changes in the quality of water and the flow, reduced, significantly an area of reeds. These reeds were used by local villagers to make baskets and other articles. Selling these products provided an important source of income. Without the resource of the reeds, the villagers had to find an alternative source of income. They did so by exploiting trees which they processed into charcoal for which a market existed. By exploiting this resource they contributed to an already serious problem of deforestation and added to the attendant problems of soil depletion and erosion which accompany deforestation.

"Environmental impact" is broadly defined so that in addition to the impacts on the natural, biophysical environment it also covers the impacts on the human environment.

In all of the institutions used as examples the impacts on the human environment are studied in addition to the impacts on the natural environment (see Table 2).

	Natural environment	Human environment
EBRD	"physical"	"health", "safety", "socioeconomic"
Ex-Im Bank	"natural"	"socioeconomic", "sociocultural"
IDB	"environmental"	"social"
IFC	"natural"	"human health and safety", "sociocultural"
OPIC	"natural"	"human", "health", "safety"

Table 2. The types of impacts assessed in EAs of the foreign institutions used as examples.

4.2 The typical stages of the EA process and its tasks

Based on examples of the institutions used as examples, the basic stages of the EA process are:

- a) Screening
- b) Scoping and studies
- c) Review and decision
- d) Monitoring.

All institutions used as examples have written guidelines in which the EA process and the requirements are described. The guidelines are available to the applicants and to others interested in them for example from the Internet.

A. Screening

The EA begins when an application becomes pending in a financing institution. The first step in EA is screening. The purpose of screening is to decide on the type and extent of the EA needed for the project. The classification of a project depends usually on the type, location, sensitivity and scale of the project, as well as the nature and magnitude of its potential environmental impacts.

All the financing institutions presented in the previous chapter have their own classification system, according to which the projects are classified to require different types of assessment tools and extent of the study. A typical classification category is:

- *Category A.* Projects likely to cause a range of significant adverse impacts whose extent and magnitude cannot be determined without a detailed study.
- *Category B.* Projects which are likely to cause a limited number of significant adverse impacts. The impacts are well-known and it is expected that such projects can be implemented after a limited environmental study.
- *Category C.* Projects not expected to result any significant adverse impacts and which do not require any further environmental study.

The decision on the classification is made by the environmental experts of the institution with the help of the preliminary information of the project and the criteria and checklists included in the classification system. Often the initial information of the project provided by the project developer is required to include environmental information, for example concerning the emissions of the project, sensitive areas located nearby the site or any environmental studies already made of the project. Typical classification methods used by the institutions are different checklists. The institutions use at least the following types of lists:

- categorical exclusions -lists (so called negative lists) of the types of projects that do not require any kind of EA
- lists of the types of projects that require a certain type of study (so called positive lists)
- lists of sensitive areas (for example tropical forests, protected areas) or factors (for example indigenous people) that the projects have impact on are classified in a certain way.

One interesting method for EA and its screening stage used in IDB is the bank's country environmental strategy (CES). The bank's CES concerning a certain country contains among other things the most critical environmental and natural resources issues facing the country and describes key factors or areas in the country's environmental policy and management as well as the effectiveness of environmental law, regulations and institutions. (IDB 1998c.)

The institutions also use prohibitions-lists which define the type of projects, products or their components that are not funded or given guarantees etc. under any circumstances. Some of the financing prohibitions are passed on for environmental reasons. Box 3 presents the types of projects that OPIC has passed financing prohibitions on for environmental reasons.

B. Scoping and studies

Next step is to plan and implement the necessary studies. Usually the applicant is responsible for the costs and carrying out the studies. The basic tools are a full-range **environmental impact assessment** (EIA) for category A projects, a more limited **environmental analysis** for category B projects and an **environmental audit** (see Table 3, next page). EIA and environmental analysis are used to predict the environmental impacts of the proposed project and to study other environmental aspects related to the project. Audit is usually applied in the study of the environmental aspects of existing operations. Audit can also be a part of the EIA for example if the EIA concerns the extension of an existing establishment.

Box 3. OPIC's categorical prohibitions –list

(OPIC 1998, 45-46)

1. *Infrastructure and extractive projects located in primary tropical forests. Extractive projects include oil, gas, mineral resources, steam/geothermal and surface resources such as timber.*
2. *Projects involving the construction of large dams that significantly and irreversibly disrupt natural ecosystems upstream or downstream of the dam, or alter natural hydrology, or inundate large land areas, or impact biodiversity, or displace large numbers of (5 000 persons or more) or impact local inhabitants' ability to earn livelihood.*
3. *Projects involving the commercial manufacturing of ozone-depleting substances or the productions or use of persistent organic pollutants.*
4. *Projects that require resettlement of 5 000 or more persons.*
5. *Projects in or impacting areas protected by the RAMSAR Convention (designated wetlands of international importance).*
6. *Projects in or impacting natural World Heritage Sites.*
7. *Projects in or impacting areas on the United Nations' list of national parks and protected areas.*
8. *Extraction or infrastructure projects in or impacting strict nature reserves/wilderness areas, national parks, national monuments or habitat/species management areas as defined by the World Conservation Union (IUCN).*

Other tools related to the ones mentioned above or complementary to them are

- risk assessments that identify accident risks of projects
 - hazard assessment (IFC), risk assessment (IFC), major hazard assessment (OPIC),
- monitoring and action plans concerning the monitoring of the impacts and the mitigation of adverse impacts
 - environmental management and monitoring plan (OPIC), environmental action plan (EBRD, IFC), environmental remediation plan (OPIC)

	EBRD	Ex-Im Bank	IDB	IFC	OPIC
1. EIA	X	X	X	X	X
2. Environmental analysis	X	X	X	X	X
3. Environmental audit	X			X	X
4. Hazard or risk assessment				X	X
5. Environmental monitoring and action plan	X			X	X

Table 3. The types of assessment tools used in the foreign institutions used as examples. The institution-specific names of the tools correspond only approximately to the grouping of the table.

Financing institutions usually have their own general standard requirements for the extent of the studies included in different tools. The detail and scope of a study depend upon the likely types and extent of a project's environmental impacts and the sensitivity of the locations affected. These are usually determined through scoping. Scoping is the activity of deciding on the matters to be investigated in the study, once a decision has been taken that a certain type of assessment tool will be applied.¹¹

The ways of scoping in the institutions used as examples differ from each other. Usually the bank's experts assist the applicant, if necessary, in planning the studies and for example in finding consultants. The results of the scoping can be presented as a written work plan, terms of reference. The scoping stage is essential also from the standpoint of stakeholder participation. EBRD, IDB and IFC are the institutions used as examples that require stakeholder participation at the scoping stage.

The most important types of assessment tools of the institutions and their general requirements for the contents of the studies are presented in the following.

Environmental impact assessment (EIA)

EIA is the broadest and most thorough one of the tools used by the financing institutions. An EIA is carried out to identify, predict and evaluate the future environmental impacts associated with a particular operation where the impacts are potentially significant.

The results of an EIA are usually documented in a written report. Table 4 (next page) views the requirements for the contents of an EIA set by the institutions used as examples. The table points out the important fact that the requirements for contents are very unison. The only significant difference is whether an EIA is required to include a study of the project alternatives. Potential alternatives for a project are:

- alternatives for a proposed action (for example buying energy as an alternative to the production of energy)
- alternatives within the proposed action (for example alternative locations, processes, raw materials and fuels and transport routes, alternative ways to prevent and mitigate adverse impacts)
- the alternative of no action.

Studying the alternatives also includes the comparison of the chosen alternatives in terms of their potential environmental impacts. The alternative of no action provides a baseline against which the other alternatives can be measured.

¹¹ Scoping includes the identification of project's potential impacts and focusing the assessment to the impacts that are considered significant. Identification of impacts is presented in Annex 3.

	EBRD	Ex-Im Bank	IDB	IFC	OPIC
1. Summary	X	X	X	X	X
2. Project description	X	X	X	X	X
- consideration of alternatives	X ²		X ²	X ²	X ¹
3. Legal framework	X	X	X	X	X
4. Baseline data	X	X	X	X	X
5. Environmental impacts	X	X	X	X	X
6. Mitigation	X	X	X	X	X
7. Comparison	X		X	X	X ¹
8. Monitoring	X	X	X	X	X ³
9. Stakeholder participation	X	X	X	X	X

¹ Includes only the alternatives of mitigation.

² Possible alternatives are: alternatives for the proposed project site, technology, design and operation and also the alternative of no action.

³ Separate environmental management and monitoring plan (EMMP).

Table 4. Comparison of the requirements for the contents of an EIA by the institutions used as examples.

An EIA report typically covers the following items:

- *Summary.* A non-technical summary produced also in the local language.
- *A project description.* A description of the proposed project and its alternatives, including information about the location, design and scale of the project.
- *Legal and institutional framework.* A description of the legal and institutional framework, including information about all environmental requirements for the proposed project in the country where the operation will take place and relevant international environmental agreements to which the country is a party.
- *Baseline data.* A description of the environment that could be affected by the proposed project or alternatives.
- *Environmental impacts.* A description of the predicted environmental impacts of the project and its alternatives and the assessment of significance and acceptability of impacts.
- *Prevention and mitigation.* A description of prevention and mitigation measures of the adverse environmental impacts and measures to enhance environmental benefits.
- *Comparison of alternatives.* A comparison of the different alternatives, including the alternative of no action, in terms of their potential environmental impacts and the feasibility of mitigating these impacts.
- *Monitoring.* The monitoring, reporting and evaluation requirements during the implementation of the project and thereafter.
- *Stakeholder participation.* A description of the process and a summary of the results of consultations with affected groups.

Environmental analysis

Projects, that have potential adverse environmental impacts that are not so significant that their assessment would require a full-scale EIA, are required environmental analysis by the institutions used as examples. The contents of the environmental analysis is usually similar to that for an EIA although the scope of analysis is more limited.

For example, information about the project required from the applicant in OPIC (1998, 7-8) typically includes the following:

- site description
- processes involved
- materials used and stored on site
- air, liquid and solid wastes generated in relation to applicable standards
- occupational health and safety measures.

Environmental audit

If the financing decision to be treated concerns for example acquiring an existing industrial establishment or land that has earlier been in industrial use, then the type of the assessment tool is an environmental audit.

Environmental audit is an assessment of environmental impacts of pre-existing or ongoing activities.

For example in EBRD (1996b) an audit typically covers

- the environmental condition of the site
- operations and related facilities
- environmental regulations that apply to the operation
- the environmental degradation and existing impacts (on-site and off-site)
- observations or records of environmental damage
- adequacy of pollution control measures
- regulatory compliance record
- opportunities for environmental improvements.

Audits are usually conducted by an independent third party, such as an environmental consulting firm, to maintain objectivity.

C. Review and decision

The details of this stage vary by the institution used as example, depending for example on the differences in the organisations and the decision-making practise of the institutions. However, the typical tasks of this stage are presented as follows.

After the studies have been completed the applicant delivers the results, e.g. the assessment report to the financing institution. Box 4 (next page) presents the general quality requirements related to EA reports.

The environmental experts of the institution evaluate the adequacy of the information produced and if necessary, ask the applicant to complete the studies. The studies made, e.g. the assessment report, are usually made available for public inspection. Thus, the citizens and other stakeholders have the opportunity to express their opinion about the adequacy of the studies and for example about the adequacy of the mitigation measures.

Based on the studies and the opinions expressed about them, the environmental experts of the financing institutions evaluate the environmental acceptability of the project and make a written memorandum about it. The memorandum is usually enclosed along with the other decision-making material concerning the project. The conclusions presented in the memorandum must correspond to the information presented in the original material.

For example in EBRD the memorandum must cover the following points (EBRD 1996b):

- current environmental, health and safety status of the operation
- potential environmental impact of the operation
- summary of action plan and status of agreement with authorities, if applicable

Box 4. Requirements related to EA reports

The report must be illustrative, logical and unbiased as well as understandable.

The report must present:

- the starting points, assumptions made and the appropriateness and justifications of the methods used*
- the most important uncertainties in the predictions of impacts and the possible insufficiency of information*
- all the essential information sources properly identified and referenced*
- the authors and their main references.*

- environmental additionality
- status of stakeholder participation
- other issues
- a statement of conformity with the Bank's environmental policy.

The institutions' assessment guidelines and/or general directives for decisionmaking usually clearly state that a positive financing decision requires:

- adequate environmental information about the project
- based on the previous, a conclusion that the project is environmentally sound and sustainable.

In the institutions used as examples the assessment of environmental sustainability seems to rely on whether the project fulfils the environmental standards, e.g. emission standards set by the legislation of the recipient country, and the standards set by the financing institution. OPIC and IFC are the institutions that mainly require the fulfilment of the standards set by the World Bank¹². The Ex-Im Bank has its own project-specific standards. On the other hand, EBRD also requires compliance with the environmental legislation of the EU in addition to the legislation of the recipient country.

When the financing decision is positive, all the environmental requirements and conditions set for the project within the EA are recorded in the contract documents. Typical issues to be documented are:

- environmental standards concerning the project (e.g. emission standards included in the recipient country's environmental legislation and/or in the financial institution's own environmental requirements)
- the means and measures for the mitigation of adverse impacts
- obligation to monitoring and reporting.

Those institutions that include the different action and monitoring plans in the EA process usually record these plans in the contract documents.

¹² *Environmental guidelines and standards of the World Bank have been compiled in the Pollution Prevention and Abatement Handbook of 1997. This handbook has been prepared to update and replace the World Bank's 1988 Environmental Guidelines. The handbook is available from the Internet at the address www-esd.worldbank.org/pph/home.htm*

D. Monitoring

The EA process finishes in monitoring. Monitoring has the following objectives:

- Compliance monitoring. The compliance with different regulations (e.g. emission standards) are monitored.
- Impact monitoring. The impacts caused by the project are studied.
- Mitigation monitoring. Mitigation monitoring follows the implementation of the scheduled mitigation measures and the effectiveness of those measures.

The monitoring is organised and implemented by the developer as agreed in the monitoring programme. The developer delivers the monitoring information according to the obligations of reporting set in the monitoring programme. The financing institution is thus able to monitor the compliance with the environmental terms of the financing decision. The financing institution can also monitor the project e.g. by visits. The obligations of monitoring are usually valid until the developer has paid back the loan or the guarantee obligation has expired and so on.

The financing institution can also develop its assessment process based on the monitoring information, if necessary.

4.3 Summary and the framework for the analysis

The financing institutions' principles of an effective EA process are summarised in the following framework of analysis (compare to Bisset 1996, Sadler 1996, 22-23; UNEP Environmental... 1996). The framework is based on principles and questions that define them more closely. In the next chapter, the framework is used in analysing the assessment of environmental impacts in the Finnish forms of public export and investment promotion.

1. **High level commitment, clear mandate and purpose.** The general goals of a financing institution must include the objective of environmental sustainability. The financing institution must have a written environmental policy, which defines the environmental goal and the means of implementation (especially EA). This provides a clear setting and status to the EA in the institution's operations.
 - *Do the institution's operational directives clearly include the goal of environmentally sound and sustainable operation?*
 - *Does the institution have a written environmental policy?*
 - *Is it stated that this goal is pursued by systematic environmental assessment and consideration?*
2. **Clear written guidelines.** Clear guidelines (e.g. EA handbook) about carrying out an EA and about the contents of an EA and the responsibilities of the parties involved are necessary. The applicants and others interested also need information about the EA.
 - *Does the institution have written guidelines concerning EA?*
 - *Does the institution have EA guidelines for the applicants and other stakeholders?*
 - *Do the guidelines contain the essential points of the institution's EA process?*
3. **Adequate expertise.** The institution must possess the adequate expertise needed to apply EA.

- *Does the institution's staff have environmental expertise?*
 - *Does the institution employ full-time environmental experts?*
 - *Has the staff been given training in environmental issues?*
 - *Does the institution use outside help for environmental expertise?*
4. **Effective information disclosure and stakeholder participation.** EA must be an open and informative interactive process which aims at transmitting and considering the stakeholders' views.
- *Does the institution inform about the projects under consideration?*
 - *Is the information produced in the EA process publicly available?*
 - *Is stakeholder participation included in the process?*
 - *How and at what stage of the process participation is organised?*
 - *Are the financing decisions and the environmental conditions included in the contracts made public?*
5. **Relevant scope of consideration.** EA must be characterised by the integration of biophysical, social, economic etc. environmental impacts to the maximum extent possible. A study of the technical or location alternatives must also be included in the EA to a sensible extent.
- *What kind of environmental impacts are considered?*
 - *Does the assessment include consideration of alternatives? What kind ?*
6. **Systematic process.** Organising an effective EA requires sensible organisation and sharing responsibility between parties. EA must be scheduled so that the information produced is available for making of the financing decision. EA should be closely tied to other planning during the project, e.g. to technical planning. This increases the significance of environmental information in the modification of a project, e.g. concerning technical solutions or the choice of mitigation measures. The process must cover the following tasks:
- a) **Screening.** Definition of the need for assessment and the appropriate assessment tools.
- *Do all the applications automatically go through a screening in order to find out the need for an EA and its extent?*
- b) **Scoping and studies.** Detailed definition of the studies and their implementation.
- *Does the institution have general requirements for the tools and the contents of the study needed?*
 - *Are the detailed contents of the necessary studies defined case-specifically?*
 - *Are the studies adequate considering the nature of the project?*
 - *Is the applicant responsible for the studies and the costs?*
 - *Do the studies produce adequate information about the project's impacts, alternatives and possibilities for the mitigation of adverse impacts?*
 - *Are the results of the studies presented clearly, understandably and in a useful way for decision-making?*

c) **Review and decision.** Evaluation of the adequacy of the studies and decision-making.

- *Does the institution check the adequacy of the information produced?*
- *Is the information produced or its main contents used as a part of the decision-making material?*
- *Do the propositions for a decision take a stand on the environmental sustainability of the project?*
- *What kind of environmental standards are required for the project ?*
- *Can environmental terms be included in the financing contract, if necessary?*

d) **Monitoring.**

- *Is the developer given sufficient monitoring and reporting obligations?*
- *Does the financing institution actively and systematically monitor the projects?*
- *Does the financing institution interfere with the neglect of the environmental obligations, if necessary?*
- *Does the institution take into account learning from experience with the view to making improvements to the application of the EA process?*

Analysis of the Export and Investment Promotion Forms

5

5.1 Concessional credits of Leonia Corporate Bank

5.1.1 Introduction

Leonia Corporate Bank plc¹³ grants both publicly supported credits and credits on market terms primarily for financing exports. The publicly supported credits include the so called OECD term (consensus term) export and ship credits¹⁴ and concessional credits to developing countries.

At the end of 1997 Leonia Corporate Bank's loan portfolio was approximately FIM 22 billion and profit FIM 280 million. Leonia Corporate Bank's clients are mainly suppliers of capital goods from Finland and their foreign purchasers. The market areas cover Asia, Latin America to some extent and Africa to a lesser extent, and increasingly the countries of eastern Central Europe. (J. Koskiniemi and E. Orpana, verbal communication March 25, 1998.)

Concessional credits are export credits. Their interests are subsidised from the funds for development co-operation. (Hallituksen kehitysyhteistyökertomus... 1997, 82.)

The 1987 Act on Concessional credits to Developing Countries (1058/86) and the so called Helsinki Package agreed within the OECD regulates granting concessional credits. According to the Helsinki Package concessional credits can be granted only to economically unprofitable projects that cannot acquire financing on market terms. The Ex Ante Guidance document (OECD 1996b) has been drawn up in the OECD to assist in the appraisal of the projects' eligibility for a subsidised credit. One precondition for granting an interest subsidy is also that the projects are found to be in conformity with the goals of Finnish development co-operation. (Hallituksen kehitysyhteistyökertomus... 1997, 82.)

The volume of concessional credits has decreased after the Helsinki package in Finland as well as in the other OECD countries. (J. Koskiniemi and E. Orpana, verbal communication March 25, 1998). According to the Government's Decision-in-Principle on Finland's Development Cooperation, Finland seeks to put an end to concessional credits by means of an agreement to be concluded within the OECD. During the transitional period credits will be restricted mainly to the transfer of environmental technology and the social sector. (Decision-in-Principle... 1996, 7.)

In 1996 the loan portfolio of concessional credits was approximately FIM 2,3 billion. The payments of interest subsidy were approximately FIM 143 million, which was approximately 7,7 % of the total payments of development co-operation. In 1996 new decisions on concessional credits were made worth FIM 160 million and in 1997 worth about FIM 20 million. Currently the most important recipient countries of the concessional credits are in Asia, among other China and Vietnam. (Hallituksen kehitysyhteistyökertomus... 1997, 83-84 and 1998, 133.)

¹³ Finnish Export Credit Ltd. was reorganised in spring 1998 so that it is now a part of Leonia plc. It is a state-owned holding company, which owns Leonia Bank plc (former Postipankki) and Leonia Corporate Bank plc (former Finnish Export Credit Ltd.).

¹⁴ Leonia Corporate Bank competes with other banks for the OECD-term (so called consensus term) export and ship credits within the interest equalisation system administered by the Fide Ltd.

In addition to Leonia Corporate Bank also the Department for International Development Cooperation of the Ministry for Foreign Affairs¹⁵ (hereafter the Department) and Finnish Guarantee Board are mainly involved in the preparation of a credit. The Department checks that the project is eligible for a subsidised credit and decides on granting the interest subsidy for the project. If the amount of the credit exceeds FIM 15 million, a recommendation by the Finance Committee of the Council of State is needed (Hallituksen kehitysyhteistyökertomus... 1998, 132). The credits can be granted only to developing countries eligible for a guarantee. Finnish Guarantee Board is in charge of the guarantee. (Hallituksen kehitysyhteistyökertomus... 1997, 82.)

Leonia Corporate Bank decides on granting the credit, acquires the funds, negotiates the credits, draws up the credit agreements and is responsible for the administration of the credits (J. Koskiniemi and E. Orpana, verbal communication March 25, 1998).

The preparation of a project proceeds usually so that the Finnish exporter offers its product to a company in the recipient country. The exporter contacts Leonia Corporate Bank which checks preliminarily whether the project fulfils the terms of a subsidised credit. After that the local partner starts the preparation for the project on site. A feasibility study is carried out for the project. The financier does not actually give guidance for the study, but it can advise on what the study should include in order to correspond to the needs of the financier. (J. Koskiniemi and E. Orpana, verbal communication March 25, 1998.) At this stage the Department does not influence the contents of the feasibility study so the exporter and/or the purchaser carry it out from their own point of view (H. Sallinen, verbal communication June 16, 1998).

When the feasibility study and credit application come to Leonia Corporate Bank, all the material concerning the project is immediately sent to the Department for International Development Cooperation of the Ministry for Foreign Affairs. Finnish Guarantee Board and the Department for External Economic Relations of the Ministry for Foreign Affairs are asked for a statement about the project. Also Leonia Corporate Bank encloses its own statement of the project. (J. Koskiniemi and E. Orpana, verbal communication March 25, 1998.)

If, based on the preliminary information, the project is considered eligible for an interest subsidy loan, the Department has an appraisal of the project drawn up. The purpose of an appraisal is to determine the project's eligibility for a concessional credit and to evaluate the project's impacts. An appraisal is always drawn up by an outside consultant who usually makes a visit to the site. Occasionally the study is carried out as a "desk-top study" (no site-visits included) at the office. For the appraisal the Department draws up the terms of reference which define what factors of a project are appraised and studied. (H. Sallinen, verbal communication June 16, 1998, Varho 1997.) Based on the appraisal the Department makes the decision on granting the interest subsidy. After this the project is returned to Leonia Corporate Bank for preparing of the credit. (J. Koskiniemi and E. Orpana, verbal communication March 25, 1998.)

5.1.2 Environmental assessment

As a part of the preparation of the concessional credit decisions, the environmental impacts of the projects are considered. The following chapter describes the assessment of projects and analyses it with the help of the evaluation framework that was presented in chapter 4.3.

¹⁵ This study concentrates on the situation before the Ministry for Foreign Affairs' organisational reform August 1, 1998.

1. High level commitment, mandate and purpose

The obligation of environmental considerations in the Government's Decision-in-Principle on Finland's Development Cooperation also applies to concessional credits (Decision-in-Principle... 1996, 3).

The basic goals of Leonia Corporate Bank do not include any objectives of environmentally sustainable operations, nor does the bank have a documented environmental policy.

The Department for International Development Cooperation Guidelines for Programme Design, Monitoring and Evaluation state that the assessment of environmental impacts is an important aspect (Ministry for Foreign Affairs 1997, 5).

2. Guidelines for the assessment

Leonia Corporate Bank does not have guidelines for carrying out an environmental assessment. The Department's guidelines for environmental impact assessment (FINNIDA 1989) do not seem to have any significance in practise in the appraisal of credit applications. Leonia Corporate Bank and the Department rely to great extent on OECD Ex Ante Guidance on Tied Aid (OECD 1996b). The document handles the contents of a feasibility study and the main focus is on the eligibility of projects for concessional credits. The guidance on assessing environmental matters is very brief.

3. Expertise

Leonia Corporate Bank does not at this time employ an environmental expert. It is the Department that has the responsibility for environmental expertise.

The Department's staff include one environmental expert who participates in the administration of the projects. His duties cover all of the development cooperation. He might also be involved in drawing up the terms of reference for an appraisal. (H. Sallinen, verbal communication June 16, 1998.)

The Department uses outside experts to appraise projects and environmental information produced in the preparation of the projects. Usually the appraisal is drawn up by an engineer and an economist. Appraisal team does not always have environmental expertise. (Varho 1997, viii; J. Koskiniemi and E. Orpana, verbal communication March 25, 1998.)

4. Information disclosure and stakeholder participation

EA of the concessional credits does not include information disclosure or stakeholder participation. However, the decisions on concessional credits and the documents related to them are public.

5. Scope of consideration

OECD's Ex Ante Guidance deals with the scope of consideration of the environmental studies included in the feasibility study. The studies must include (OECD 1996b, 13):

- *"clear statement of the significant beneficial and adverse environmental effects of the project"*
- *"upstream and downstream effects"*
- *"suggestions to mitigating measures or alternative designs for limiting negative environmental impacts."*

According to Varho (1997, iii), a comprehensive environmental assessment has usually not been carried out in the appraisals. The appraisals often concentrate on the beneficial environmental impacts that are considered desirable. Often the

project is not considered in whole but the consideration covers only the component of the project that is the target of the credit. Based on Varho's report (1997), it seems like for example in energy project primarily the emission and air quality issues have been considered and in water resource projects usually only waste water discharges have been considered.

Concessional credit projects do not often study alternative locations. Instead, different alternative technologies are considered to some extent. However, this is limited by the fact that by the time the project reaches the appraisal state, the technical solutions are more or less decided upon. (Varho 1997, viii.)

6. Assessment process

The preparation for concessional credit projects does not include a clear EA screening stage. However, all concessional credit projects require a feasibility study and appraisal which should also include environmental studies. According to Leonia Corporate Bank, *"information on environmental impacts is always required in cases of significant projects"* (Leonia Yrityspankki Oyj 1998).

Scoping is carried out case-specifically at various stages during the preparation for a project. Leonia Corporate Bank or the Department do not have general requirements for the contents of the studies. At the feasibility study stage Leonia Corporate Bank *"might give guidance for what the study must contain in order to correspond to the needs of the financier (the institution granting the guarantee)"* (Leonia Yrityspankki Oyj 1998). In connection with the terms of reference for an appraisal, the Department makes one type of scoping decision when it determines to what extent environmental factors are included in the appraisal.

Usually the exporter and purchaser together, and sometimes the authorities of the recipient country, are responsible for the costs of a feasibility study. It is possible to get a subsidy for the costs from the EIT appropriation funds. The Department is responsible for the costs of an appraisal. The feasibility study and the appraisal are documented. These reports are available for the decision-makers. Based on Varho's report (1997), it seems like the studies are not always adequate.

In addition to providing additional information, an appraisal has a review function. After a draft appraisal report is completed, a de-briefing is organised with the participants of Leonia Corporate Bank, Finnish Guarantee Board and the Ministry for Foreign Affairs. In the de-briefing the participants can ask for additional information. After the de-briefing the Ministry for Foreign Affairs prepares the documents for the decision on an interest subsidy (Varho 1997, vi.) Based on the appraisals, none of the applications have been rejected for environmental reasons (J. Koskiniemi and E. Orpana, verbal communication March 25, 1998).

If an interest subsidy is decided to be granted, the preparation for the matter is continued in Leonia Corporate Bank. The terms of an agreement do not include environmental obligations but they are purely financing agreements. The starting point is that the environmental requirements of the recipient country are complied with. (J. Koskiniemi and E. Orpana, verbal communication March 25, 1998.)

The follow-up of a project does not include separate environmental monitoring and reporting. The receivers of a concessional credit are obliged in the credit agreement to report on the implementation of the project and to deliver the annual report, in case one is produced, to the bank. Information is also acquired from the exporters. (Leonia Yrityspankki Oyj 1998, J. Koskiniemi and E. Orpana, verbal communication March 25, 1998.) In some cases an evaluation is carried out afterwards. However, not all projects have been systematically evaluated. (H. Sallinen, verbal communication June 16, 1998.) In principle, the evaluation is guided by the Department for International Development Cooperation's Guidelines for Programme Design, Monitoring and Evaluation (Ministry for Foreign Affairs 1997). The De-

partment has required that some of the projects must be monitored more closely. In these cases a check up visit has been made to the location together with a representative of the Department. (J. Koskiniemi and E. Orpana, verbal communication March 25, 1998.)

5.2 Finnish Fund for Industrial Cooperation Ltd. (Finnfund)

5.2.1 Introduction

Finnfund is a development financing institution that was founded in 1979. Its objective is to promote the internationalisation of Finnish companies by financing their investments to developing countries and from the beginning of 1992 also to Central and Eastern Europe. The State of Finland owns 96,9 % of the company's shares. The other shareholders are Finnish Export Credit plc (3,0 %) and Confederation of Finnish Industry and Employers (0,1 %). (Finnfund 1998, 13 and 1993.)

Finnfund complements the commercial financing services in the markets that lack these services or where these services are inadequate. Finnfund also finances projects in which the risks exceed the risk-taking capacities of the commercial sector. The company's forms of activity include:

- minority investments of the capital stock
- long-term investment credits
- guarantees
- finance for training and technical support
- intermediating the services of the EU financing programmes
- advisory services concerning investments.

Finnfund's operations that are targeted to developing countries are a part of the Finnish development co-operation. The company receives interest subsidies from the State. However, interest subsidies are no longer provided for new credits. (Valtion erityisrahoituksen... 1997, 57 and 142-143.)

Finnfund co-operates both with Finnish and foreign special financing institutions and commercial banks. In Finland a typical form of co-operation might consist of co-financing joint venture projects connected to exports of Finnish machinery and equipment with Finnish Export Credit. Finnfund practises significant co-financing with international special financing institutions, among others IFC and EBRD. (Valtion erityisrahoituksen... 1997, 169.)

The company's operations and objectives correspond to the so called "Development Finance Corporation" -concept. The best known of the development banks is the International Finance Corporation IFC that belongs to the World Bank Group. IFC has served as an international model for many other development banks. There are institutions like Finnfund in 11 European countries and in Japan. The development finance institutions operating in Europe form an association called the European Development Finance Institutions (EDFI). (Valtion erityisrahoituksen... 1997, 146.)

Finnfund's administration follows the traditional model for a state-owned company's administration. The company belongs to the administrative sector of the Ministry for Foreign Affairs (Finnfund Act 291/79). The supervisory board that consist of representatives of the parliamentary groups and minority shareholders supervises the company's operations. The board of directors that consist of six members outside the company and the managing director is responsible for the

financing decisions and operative management. The outside members are the two representatives of the Ministry for Foreign Affairs and the representatives of the Ministry of Finance and Ministry of Trade and Industry as well as corporate representatives. The board of directors usually has 10-12 meetings per year. The board of directors handles all financing decisions. Finnfund's operative organisation consists of an office in Helsinki and a regional representative office in Malaysia. The number of the staff has been approximately 30 people during the recent years. (Valtion erityisrahoituksen...1997, 168.)

Finnfund's line of action is to participate in all phases of a project's life cycle. Thus one cannot speak only about handling the applications for finance. The most important phases include identification of the project, development (feasibility study), project appraisal, negotiations for a contract, implementation, follow-up and control (especially as a member in the debtor company's board of directors). The typical preparation time for a project is 1 - 2 years, implementation 6 - 24 months and the duration of the investment after the business activity has started 5 - 8 years. (Valtion erityisrahoituksen... 1997, 168.)

At the end of 1997 Finnfund had 64 financing commitments in 28 countries. A total of 40 commitments were targeted to developing countries, of which 25 to Asia, 3 to the Mediterranean area, 6 to Africa south of the Sahara and 6 to Central and South America. The total value of the commitments was FIM 786 million, of which 39 % were capital stock investments and 61 % loans. The commitments to developing countries were FIM 489 million. The main fields of operation in developing countries were mechanical and metal industry, chemical engineering industry and electronics and electrical industry. (Hallituksen kehitysyhteistyökertomus 1998, 134.) Finnfund's finance is catalytic and the total amount of finance that it produces should exceed the amount of Finnfund's finance five- to sixfold (Valtion erityisrahoituksen... 1997, 143).

At the end of 1997 there were 83 project initiatives under preparation, of which 51 to developing countries. Approximately one fifth of the project initiatives concerned China. Three of the eight new financing decisions that Finnfund has made concerned developing countries. The value of these three decisions was FIM 43 million. (Hallituksen kehitysyhteistyökertomus... 1998, 134.)

5.2.2 Environmental assessment

Finnfund considers the environmental impacts of the projects to be funded. This is carried out with the help of the environmental assessment that is a part of the normal assessment process of the projects to be funded. Finnfund's environmental assessment process is described and analysed in the following with the help of the framework for the analysis presented in chapter 4.3.

1. High level commitment, mandate and purpose

Finnfund's policy includes the goal of environmentally sustainable operations. This objective is indirectly stated in Finnfund's guidelines for operations in developing countries (1992a). The guidelines state that "the company's objectives are defined by the guidelines for Finnish development co-operation policy". One of the important principles of these guidelines is environmental considerations (e.g. Decision-in-Principle... 1996). Finnfund's guidelines also state that one criterion for selecting projects is the ecological impact of the project.

The environmental goal and the more detailed principles related to it are clearly stated in the principles of Finnfund's environmental policy (1995). According to them the company's principle is:

- *"to consider the requirements for sound and sustainable development in all of its projects"*
- *"to assess the environmental impacts of all the projects it finances and make sure that all adverse impacts are identified and assessed and that all necessary measures are taken in order to prevent any adverse impacts"*
- *"to apply appropriate methods in the environmental assessment, audits and monitoring of the projects"*
- *"to follow the international agreements that Finland has ratified concerning the environment"*
- *"to continuously increase and strengthen the staff's information and attitudes for its readiness to deal with environmental issues."*

2. Guidelines for the assessment

The company has internal guidelines from the year 1992 concerning the implementation of an EA in practise, and a specification of the guidelines from 1997. These guidelines form in total ten pages. (Finnfund 1992b and 1997b.)

3. Expertise

Finnfund does not currently employ full-time environmental experts. However, the employees preparing the projects have knowledge of the environmental issues in their own field. The staff's training has also included environmental education. (K. Hiltunen and M. Kerppola, verbal communication May 25, 1998.)

4. Information disclosure and stakeholder participation

EA does not involve information disclosure or stakeholder participation. The company's principle in information disclosure is to publish information concerning a finance decision only with the consent of the client. Finnfund's annual report lists only the company's valid finance decisions and basic information about them: country, investment object, field of production, Finnish partner, date and value of the finance decision and the possible share of ownership by Finnfund (Finnfund 1998, 44-47).

5. Scope of consideration

The environmental issues covered in EA usually include:

- questions concerning the location of the project and the real estate (e.g. purity of the soil)
- raw materials used in the operation
- waste water , e.g. sewage and waste water treatment
- emissions to the air
- solid waste produced in the operation and waste treatment
- occupational health issues
- training of the staff.

Assessment does not usually include consideration of alternatives. (K. Hiltunen and M. Kerppola, verbal communication May 25, 1998.)

6. Assessment process

According to the EA guidelines, the regional manager responsible for the project (currently the developer) is also primarily responsible for the appropriate implementation of EA (Finnfund 1992b, 1).

According to the EA guidelines, the assessment begins with screening to make a decision whether the project requires an environmental assessment. The decision is made with the help of the following classification. Environmental assessment will be carried out when:

1. *"the objective of the project is to improve the state of the environment or a more economical use of raw materials"*
2. *"the project has various or significant environmental impacts or it is difficult to estimate the environmental impacts of the project"*
3. *"the project involves a purchase of an operating industrial plant". (Finnfund 1992b, Annex 1.)*

It is not necessary to carry out an environmental assessment, if the project has *"very few or no environmental impacts"*. These types of projects include for example training projects, credit institutions, consulting companies and in general the service sector projects. (Finnfund 1992b, Annex 1.) In practise environmental assessment has been carried out in nearly all of the company's projects except for some credit institution and fund projects (K. Hiltunen and M. Kerppola, verbal communication May 25, 1998).

According to the EA guidelines, the assessment: *"...can be carried out in co-operation with the Finnish partner of the project. The starting point of the assessment is the environmental analysis carried out in the feasibility study. If this proves to be inadequate Finnfund assesses the environmental impacts itself or uses an outside expert, if necessary."* (Finnfund 1992b, 2.)

In connection with screening, also the extent of the assessment is determined. According to the EA guideline: *"the assessment of environmental impacts of a project concentrates on four components:*

1. *Assessment of the current state of the environment*
2. *Study of the requirement by the local legislation*
3. *Assessment of the projects adverse environmental impacts*
4. *Definition of the measures needed to decrease and prevent the adverse impacts and a study of the need and possibilities for monitoring."* (Finnfund 1992b, 2-3.)

The specification of the EA guidelines from 1997 presents also the following classification based on the environmental risks of the different types of projects.

- A) Projects with significant environmental impacts (e.g. agricultural, forest and fishing industries, mining industry, chemical industry, energy sector and waste management)
- B) Projects that have some environmental impacts which are easy to assess (e.g. food, packaging, paper and textile industries)
- C) Projects that can be considered as neutral with regard to the environment. (Finnfund 1997b, 1.) According to the specification, the risk classification should be used in defining the extent of an EA.

In practise EA is usually carried out so that the client carries out a feasibility study of the project which also deals with the project's environmental impacts. Finnfund does not, in addition to the general requirements for the contents, define the extent of the necessary studies in advance. The company delivers the feasibility study and the background material related to it, e.g. the separate environmental studies to Finnfund. A feasibility study does not usually include consideration of alternatives because the contents of the project, e.g. the location and technology used, has already been defined. In some projects a pre-feasibility study will be carried out before the actual feasibility study. The pre-feasibility study might include e.g. several alternative technologies for the projects. (K. Hiltunen and M. Kerppola, verbal communication May 25, 1998.)

Finnfund's management and the persons in charge of the preparation for the project form the project's steering group which deals with each project two or three times in its meetings. In these meetings also the environmental issues are discussed. If necessary, the client will be asked for additional information. (K. Hiltunen and M. Kerppola, verbal communication May 25, 1998.)

The EA guidelines have a point that concerns the documentation of the assessment. It presents an example of a way to outline the assessment. This point also states that *"a 1-5 pages long chapter of the environmental assessment of the project is included in the investment memorandum of the project"*. Additionally it is stated that the investment memorandum should shortly comment on points mentioned in the exemplary outline. (Finnfund 1992b, 7.) In practise the results of the EA are not documented in writing, except for the feasibility study supplied by the client and the eventual separate environmental studies.

The results of the assessment are summarised briefly on a page and included in the investment memorandum. Based on this memorandum, the board of directors makes the decision of its involvement in the project. (K. Hiltunen and M. Kerppola, verbal communication May 25, 1998.)

The environmental summaries of four investment memorandums were available for the purposes of this study. Based on these four cases, it seems that the extent of the studies for the EA varies greatly and that in at least one of the example cases the environmental studies were inadequate considering the nature of the project. However, based on the environmental summaries, it is not possible to evaluate reliably the extent and adequacy of the studies carried out for the assessments.

According to the leading principles of Finnfund's environmental policy (1995), EA aims at ensuring that *"all essential environmental factors have been appropriately considered before the project is presented for approval"*.

The EA guidelines (1992b, 5) emphasises especially the careful assessment of the existing industrial plants as follows: *"When Finnfund considers a partnership in a project which involves a modernisation of an existing industrial plant with the objective of improving efficiency and also decreasing environmental load, extra caution should be kept in mind. Before making the investment decision the damage that the industrial plant is causing and has already caused to the environment or to the workers must be well assessed."*

One important criterion for a project's environmental acceptability is that *"the project complies with the requirements of the legislation of the recipient country and with the requirements of environmental standards and if necessary, with the international standards as applied"* (Finnfund 1995). In practise Finnfund requires that the technology used in the projects corresponds to the modern technology used in Finland. Thus, the emissions from the operation will be at the level that is lower than what the Finnish emission standards require. (K. Hiltunen and M. Kerppola, verbal communication May 25, 1998.)

The leading principles of Finnfund's environmental policy (1995) also state that: *"If necessary, the measures concerning the environment should be documented in the agreements made with the partners, and Finnfund monitors that the planned protection and cleanup measures have been implemented as was agreed upon."*

The specification (1997b, 2) of the EA guidelines states the following concerning the monitoring of the projects:

- *"Regular reporting must be agreed upon with the client."*
- *"In significant environmental projects an outside expert can be charged with the position of monitoring."*
- *"An annual summary of all the environmental reports of the ongoing projects will be prepared for Finnfund's management."*

Monitoring a project can also be arranged by participating in the client company's board (partnership companies in which Finnfund is a member of the board), or by reports required of the client or check-up visits. However, usually Finnfund relies on the Finnish companies' long-term involvement in the projects which means that they cannot afford not to comply with the environmental standards set by authorities or other organisations. (K. Hiltunen and M. Kerppola, verbal communication May 25, 1998.)

5.3 Appropriation for economic, industrial and technological projects (EIT appropriation)

5.3.1 Introduction

Economical, industrial and technological co-operation projects that are carried out together with developing countries have been subsidised with the so called EIT appropriation since 1984. The appropriation can be granted to Finnish companies, institutions and associations for projects which involve economic or industrial co-operation or technology transfer to developing countries. The main objective of the appropriation is to promote economic development and well-being in developing countries. The appropriation can be used to cover the costs of feasibility studies, expert services and training. The appropriation can only be used to consulting services acquired from Finland. Acquisitions of machinery or equipment is not financed. The objective is create preconditions for long-term operations on a commercial basis. The "seed money impact" of the appropriation system has been significant especially in China where productive joint ventures of small and medium sized companies have been created. Also some interest subsidy projects have been started by the appropriation. (Hallituksen kehitysyhteistyökertomus... 1998, 135; Ulkoasiainministeriö 1996,2.)

In 1997 there was approximately FIM 12 million of EIT appropriation available. The appropriation was granted to 39 projects in 19 countries. The main sectors were forest industry, environment and health care. The most important recipient countries were China (15 projects) and Egypt (4 projects). (Hallituksen kehitysyhteistyökertomus 1998, 135.)

The EIT appropriation is financed from the development co-operation funds and it is administered by the Department for External Economic Relations of the Ministry for Foreign Affairs.¹⁶

According to the Ministry for Foreign Affairs' guidelines for the application, use and accounting of the EIT appropriation, the decision-making proceeds as follows. The applications for the appropriations are treated by the advisory committee. The chairman of the committee is a civil servant responsible for the duties of the Department for External Economic Relations. Based on the statement given by the advisory committee, the Department for External Economic Relations of the Ministry for Foreign Affairs presents the decisions on the appropriations to the Minister for European Affairs for the final decision-making. When granting an appropriation is considered, emphasis is given to the development impacts of the project and to the anticipated "seed money impact". Taking this consideration into account the application must contain

- *"a project description which must include a report on the project's impacts in the recipient country, i.e. the applicant's own estimation of the project's development impacts"*

¹⁶ This study concentrates on the situation before the Ministry for Foreign Affairs' organisational reform August 1, 1998.

- "...the applicant's own estimation on the quality and amount of the anticipated seed money impact". (Ulkoasiainministeriö 1996, 3.)

After granting the appropriation the Ministry for Foreign Affairs and the receiver of the appropriation will make a detailed contract concerning the use of the appropriation. The appropriation is paid afterwards after the acceptable costs have been borne. The receiver must also present a final report of the project to the Ministry for Foreign Affairs. (Ulkoasiainministeriö 1996, 4.)

5.3.2 Environmental assessment

The application for an appropriation must contain "*a description of the project that includes a study of the project's impacts in the recipient country...*" (Ulko-asiainministeriö 1996,3). However, the applicant is not expected to provide an assessment of the project's environmental impacts. Environmental assessment is not carried out by the Ministry for Foreign Affairs that grants the appropriation. Nevertheless, the environmental aspects related to the projects are often discussed and they are considered important by the advisory committee that prepares for the decisions on the appropriations. Especially large companies have presented environmental aspects in their applications. (A, Kurittu, verbal communication February 27, 1998; H-L. Heinämaa verbal communication June 16,1998.)

According to the Ministry for Foreign Affairs some appropriations have been granted to environmental projects. For example between January 1, 1997 and June 30, 1998 EIT appropriations were granted to 69 projects worth in total FIM 22,2 million. According to the Ministry, 26 of the projects, i.e. almost 40 % (also of the monetary value) are clearly "environmentally friendly". The most important recipient countries of the environmental projects are China (11 projects) and Egypt (3 projects). The most important fields are forest industry (10 projects) and energy sector (5 projects). The projects concern e.g. modernisation and improvement of technology in pulp and paper factories and steel works. (Heinämaa 1998.)

5.4 Export credit guarantees of Finnish Guarantee Board

5.4.1 Introduction

Finnish Guarantee Board (FGB)¹⁷ belongs to the administrative sector of the Ministry of Trade and Industry. Its objective in the export credit guarantee operations is the promotion of

- systematic and profitable exports
- investments abroad that promote economic development (Valtiontakuu-keskuksen seurantatyöryhmän... 1996, 16).

FGB promotes exports and investments by providing export credit guarantees to companies and financiers. The operations are primarily targeted to countries outside the OECD area. The operations aim at self-sufficiency in the long-run. The State, however, covers possible losses from a specific guarantee fund. (Valtion erityisrahoituksen... 1997, 56.)

¹⁷ FGB and Kera Corporation are currently merging. The new company, State Special Financing plc, was founded on July 1, 1998 and will begin its full-scale operation at the beginning of 1999. This study concentrates on the situation before the reform of July 1, 1998.

An export credit guarantee allows a company or a financier to protect itself from credit risks connected to export trade. It also improves the possibilities to finance exports. The guarantee covers commercial risks i.e. risks depending on the purchaser or political risks i.e. risks depending on the purchaser's country. FGB follows the international agreements in its guarantee policy and its export credit guarantees correspond to the forms, terms and prices of the guarantee arrangements provided by the other OECD countries' guarantee institutions. (Valtion erityisrahoituksen... 1997, 139.)

In the first place FGB's operations are based on the Act (111/89) and Decree (351/89) on Finnish Guarantee Board, the Act on Export Credit Guarantees (479/62) and the Act on State Guarantees for Some Industries (375/63). The supervisory board consisting of 12 members supervises the operations of the Finnish Guarantee Board. Among its other duties the supervisory board ratifies the guidelines concerning export credit guarantees. The most important decision-making body is the board of directors consisting of 10 members. The board of directors meets once a week to decide on the most important matters concerning the guarantee policy, risk-taking, compensations or on organising the activities and administration. (Valtion takuukeskusten seurantatyöryhmän... 1996, 13; Valtion erityisrahoituksen... 1997, 166.)

The Guarantee Board is divided in five lines which are Guarantees for Large Enterprises, Guarantees for Small and Medium Size Enterprises, International Economic Assessment, Legal Services and Administration and Economy. For the scope of this study, the most relevant line is the Guarantees for Large Enterprises that provides medium- and long-term guarantees for the export of capital goods and for finance arrangements aimed both at export companies and the Finnish and foreign export financiers.

The Guarantees for Large Enterprises line is divided into the Export Credit Guarantee Group and the Project Financing Group that work in close co-operation with the lawyers of the Legal Services line and with the experts of the International Economic Assessment line (Valtion erityisrahoituksen... 1997, 167).

The guarantee stock of the Export Credit Guarantee Group consists mainly of the export credit guarantees to large companies i.e. guarantees granted for the trade of capital goods with a five-year term of payment (Finnish Guarantee Board 1998, 13).

The operations of the Project Financing Group consists mainly of large projects located in developing countries. Financing large projects with the so called project financing has increased rapidly during the 1990's, especially to Asia. Project financing is typically used for capital-intensive investments in the forest, mining, telecommunications, and power production sectors. In these investments the repayment of the credit is based on the future returns on the investment. The projects usually include a sizeable financing and collateral package that the financiers use for sharing and limiting the risk. The financiers are usually Finnish and foreign commercial financiers and state-owned credit and guarantee institutions of different countries. (Finnish Guarantee Board 1998, 11 and 13.)

The total amount of the export credit guarantee liabilities (including offers) of the Guarantees for Large Enterprises was FIM 30 billion at the end of 1997. The share of Asia was 52 % of the total amount, of the Middle East and Africa together 14 % and of Latin America 9 %. The three countries with the most liabilities were Thailand, Indonesia and China. In 1997 almost 150 new export credit guarantees were granted, in total approximately FIM 11 billion, which amounted to a 47 % increase from the previous year. Most of the new export credit guarantees granted during 1997 were still directed to Asia. The demand for guarantees was directed to the key fields of Finland's capital goods exports: machinery and equipment for forest industry, telecommunications, power plant sector and shipbuilding industry. (Finnish Guarantee Board 1998, 11, 13 and 15.)

The preparation of the guarantee decisions in the Guarantees for Large Enterprises line is carried out so that the application for a guarantee is treated by an expert or a project researcher responsible for the specific field. The person in charge draws up a presentation for the board and acquires all the necessary studies about the subject of the risk, the export contract, the project and the need for capital, the financing and the spread of risks and collaterals. Clear written guidelines exist for the preparation and drafting of the presentation. According to the guidelines the most important part is the risk analysis. After drawing up the presentation the person in charge discusses about it with his/her supervisor. Routine cases are then treated in the so called list meeting that prepares for the board meeting. However, in the case of a corporate risk, a project risk or of an application that requires a more detailed case-specific consideration, the application will be discussed with the director of the Guarantees for Large Enterprises. Checklists that have been developed through experience are used when the presentations to the board of directors are under consideration or when a collateral might be required. Major or in principle important matters will be discussed with the managing director already before the list meeting. (Valtion erityisrahoituksen... 1997, 167.)

Most of the guarantee decisions are made by the board of directors according to the instructions concerning the power of decision, because the decisions concern significant sums of money. A decision-in-principle made by the board of directors, i.e. an offer for a guarantee is submitted to the applicant. If the applicant accepts the offer for a guarantee, the actual guarantee agreement is concluded between FGB and the applicant. (K. Korhonen, verbal communication May 13, 1998; Valtion erityisrahoituksen... 1997, 167.)

5.4.2 Environmental assessment

As a part of the preparation for an export credit guarantee decision, *"the environmental impacts of the project to be guaranteed must be assessed"* (Valtiontakuukeskus 1998, 1). The following chapter describes Finnish Guarantee Board's environmental assessment and analyses it with the help of the framework for the analysis that was presented in chapter 4.3.

1. High level commitment, mandate and purpose

The basic goals of Finnish Guarantee Board do not include an explicit objective of environmentally sustainable operations. Neither does FGB have a separate environmental policy that would state the environmental goals or principles of its operations.

However, the 4th paragraph in the general principles concerning export credit guarantees, ratified by the supervisory board states the following. *"The risks involved in the investments and exports that have been presented for a guarantee or in the financing and guarantee arrangements concerning them, must be assessed adequately extensively and carefully taking into consideration the size of the contract and the terms. Finnish Guarantee Board will draw up or acquire case-specifically the necessary studies about the partners in the recipient country, the project and other essential issues such as the environmental impacts of the project."* (Kalliomäki 1997.)

The starting point for the environmental assessment of investments and exports is primarily the potential economic risks involved. The objective is to secure the operation conditions of the debtor company and the repayment of the credit. (Valtiontakuukeskus 1998, 1.)

2. Guidelines for the assessment

FGB has drafted a short memorandum about considering environmental impacts in the presentations to the board of directors (1998). According to the memorandum, as a part of the preparation for an export credit guarantee decision, the environmental impacts of a project must be assessed. However, the memorandum does not set any clear requirements for the environmental assessment process or its contents, for example for the extent of the assessment. (Valtiontakuukeskus 1998, 1.) The institution does not have any EA guidelines for the applicants or any other stakeholders.

3. Expertise

There are no full-time environmental experts working at the Finnish Guarantee Board. There is no significant use of outside environmental experts either.

4. Information disclosure and stakeholder participation

FGB's environmental assessment does not include information disclosure or stakeholder participation. The institution is bound by the banker's duty of secrecy and does not make any information concerning individual guarantee decisions public. (K. Korhonen and P. Pentinsaari, verbal communication May 19, 1998.)

5. Scope of consideration

For example in the case of projects in which wood is used as raw material, FGB has required that in addition to the environmental impacts of the actual production plant, the feasibility study must usually also consider the following aspects of forest protection (Naarvala 1998, 122; K. Korhonen, verbal communication June 11, 1998):

- a plan for wood supply that includes among other a study about the amount of the areas to be planted with trees after logging and about the general principles used in wood supply
- the necessary permits required by the authorities, concession agreements and possibly a letter of awareness from the authorities
- as applicable the regulations in the recipient country's legislation concerning the commercial use of forests.

Due to the banker's duty of secrecy it is not possible to take a closer view to FGB's EA practise by using actual cases as examples. Thus, it is not possible to evaluate the extent of the studies included in EA, for example which impacts are assessed and to what extent. One example of the possible extent of the studies was presented above in the case of projects that use wood as raw material. The assessments do not include consideration of alternatives.

6. Assessment process

The need for the assessment is defined case-specifically. The institution has no pre-set criteria (e.g. a check list) to carry out screening.

According to FGB, the environmental impacts can in practise be assessed in "larger projects" in which *"case-specifically a separate environmental analysis or an environmental study as a part of the feasibility study may be required"* (Valtiontakuukeskus 1998, 1).

The institution does not have general requirements for the contents of the studies. The studies are carried out so that FGB notifies the applicant (an exporter or a bank) about the need for a study. The applicant draws up an invitation to

tender, asks consultants for bids and chooses a suitable consultant to undertake the study. FGB may be involved in evaluating the bids and in choosing the consultant. In these cases the institution evaluates the bids by comparing them to each other and to studies that have been undertaken earlier in the same field of activity. (K. Korhonen, verbal communication May 19, 1998.) FGB requires that the consultant carrying out the study must *"know the field in question and must be internationally recognised and independent"* (Valtiontakuukeskus 1998). The scoping of the study is left for the consultant.

Based on the information available it is not possible to evaluate the adequacy of the studies or their presentation.

The assessment does not include a review of the adequacy of the studies.

A presentation for the board concerning a guarantee decision always includes a short chapter about the environmental aspects. The project's most important environmental impacts might be mentioned in this chapter. The chapter on environmental aspects follows one of the following four basic alternatives:

- 1) the necessary studies of the environmental impacts of the project and the compliance with environmental requirements have been received, and so the project is in order
- 2) a study of the environmental impacts of the project and the compliance with environmental requirements must be received before concluding the guarantee agreement
- 3) the project in question is a single, relatively small export deal, thus no environmental studies are required
- 4) due to the field of activity, the project is not expected to have any significant environmental impacts. (Valtiontakuukeskus 1998, 1; K. Korhonen, verbal communication May 13, 1998.)

If necessary, FGB requires that the financing terms of the credit to be guaranteed include a covenant for the compliance with the environmental laws and regulations of the recipient country. In addition, the credit contract might include a term according to which the legal action taken by the authorities due to neglect of environmental obligations provide grounds for giving notice (event-of-default). The institution does not set other objectives concerning environmental protection, nor does it interpret the recipient country's legislation in force. (Kalliomäki 1997; Valtiontakuukeskus 1998, 1.)

FGB thinks that especially the bank that has granted the credit is responsible for monitoring the projects (K. Korhonen, verbal communication May 13, 1998). However, if necessary, continuous reporting is required, for example about implementing a potential environmental program (Valtiontakuukeskus 1998, 1).

6

Summary and Ideas for Development

6.1 Main results

This study investigated the basic principles and tools of environmental assessment and the EA in such foreign public financing institutions that can be considered having a good quality EA practise. Based on the investigation, the elements of an effective EA were formed for the financing institutions. These elements were then used as a framework for analysing the EA in chosen forms of public financial support to Finnish exports and investments to developing countries. The analysis was especially concerned with how the environmental assessment is in general organised. Individual cases were not analysed.

The consideration of environmental impacts in financing decisions requires a systematic application of EA, which provides a framework for gathering and documenting information and views regarding the environmental impacts of a project. Within EA, the importance of the impacts and the scope for enhancing, modifying or mitigating them can be evaluated. The effective and credible application of EA requires consideration of the following principles:

- 1) EA has an established status in the preparation for the decisions.
- 2) EA guidelines are available to the applicant and the staff of the financing institution as well as to anyone else interested in them.
- 3) The financing institution has the necessary expertise for applying EA.
- 4) EA includes effective information disclosure and stakeholder participation.
- 5) EA is characterised by a broad scope of consideration of impacts and alternatives.
- 6) EA must cover the following basic tasks:
 - a) Definition of the need for assessment and the appropriate assessment tools (screening).
 - b) Detailed definition of the studies and their implementation (scoping and studies).
 - c) Evaluation of the adequacy of the studies and decision-making (review and decision).
 - d) Monitoring the project (monitoring).

These principles are presented point by point in the following. Each point presents a short summary of the realisation of the principle in question in those forms of public financial support that were included in this study. The short summaries of the analysis of the Finnish cases are presented in Box 5 (page 53).

An effective EA requires **high level commitment, clear mandate and purpose** in the financing institution. The organisation must be clearly committed to the consideration of environmental impacts in its operations. This will provide EA with a clear setting and status in the decision-making. All of the foreign financing institutions that have been included in this study have a clear commitment to the consideration of environmental impacts in their operations. EA's setting and status in the Finnish subjects of the study were essentially less clear and more undefined

Box 5. Short summaries of the analysis of the Finnish cases

Concessional credits of Leonia Corporate Bank

EA has no clear setting or status in the decision-making.

There are no detailed written guidelines for carrying out an EA nor for the contents of an EA.

The expertise needed for the application of EA is partly insufficient.

EA does not include information disclosure or stakeholder participation.

EA is unsystematic and inconsistent and the tasks that belong to the process are partly carried out insufficiently.

Finnfund

EA has a relatively clear setting and status in the operation of the institution.

Finnfund has internal EA guidelines but they are partly unclear and it seems that they are not completely followed in the assessment practice.

The expertise needed for the application of EA is partly insufficient.

EA does not include information disclosure or stakeholder participation.

The tasks that belong to the EA process are partly carried out insufficiently.

EIT appropriation

EA is not included in the decision-making.

On the other hand environmental aspects are considered important, according to the principles of the Finnish development co-operation policy, and a part of the appropriations are granted to "environmental projects" e.g. capacity building.

Export credit guarantees of FGB

EA has no clear setting or status in the decision-making.

The institution does not have detailed written guidelines for carrying out an EA nor for the contents of an EA.

The expertise needed for the application of EA is insufficient.

EA does not include information disclosure or stakeholder participation.

EA is unsystematic and the tasks that belong to the process are partly carried out insufficiently.

than in the foreign institutions used as examples. Of the Finnish institutions, Finnfund is the one which takes this matter into account best. It is the only Finnish institution in this study that has written principles of environmental policy.

The clear written **guidelines** concerning the implementation and contents of an EA and the responsibilities of the parties involved enable uniform, consistent and predictable application of the assessment. EA has been instructed well in the foreign institutions used as examples. Additionally, the guidelines of all institutions, e.g. EA handbooks, are easily available to the applicants or to others interested in them for example from the Internet. In the Finnish institutions the lack of EA guidelines is an essential problem. The guidelines are fairly unclear, brief or lack completely.

The institution must be able to perform its tasks and responsibilities in an EA process. For this purpose the institution must have or be prepared to obtain **adequate expertise** in order to apply an EA. In that way the quality of EA and the information produced in it can be guaranteed. All of the foreign institutions used as examples, although bigger in size than the Finnish cases, employ several full-time experts in EA and environmental protection. In the Finnish cases, the lack of environmental expertise is obvious. However, some environmental training has been organised. There is also not a significant use of outside environmental expertise either.

Effective information disclosure and stakeholder participation that is included in EA makes the assessment process an open and informative interaction process which aims at transmitting and considering the views of various stakeholders. In all of the foreign institutions used as examples the EA process involves information disclosure and stakeholder participation, especially in the cases of projects with significant environmental impacts. The development of and increase in participation have been essential issues in the development of EA in IFC and OPIC. The Finnish cases are completely lacking the information disclosure and participation.

In order to be as comprehensive as possible, EA must be characterised by the **integration of biophysical, social, economic etc. environmental impacts and consideration of different alternatives** (e.g. a project's different technical alternatives and alternative locations). In all of the foreign institutions the impacts to be studied include, in addition to the natural environment, at least in principle the impacts to the human environment. Consideration of alternatives is covered in projects that have significant environmental impacts and that require an EIA. The interpretation of the concept "environmental impact" is narrower in the Finnish institutions than in the foreign ones. The Finnish cases emphasise the emissions of a project and the direct impacts on the natural environment. No consideration of alternatives is included in the assessments.

An effective organisation of an EA requires proper organisation of the **assessment process** and clearly shared responsibilities between the partners. The information produced in the EA must be available at the latest for decision-making. The earlier the planning of the project involves also the environmental factors, the better these factors can be taken into account. In the foreign cases, the responsibilities of the financing institution and the applicant are usually divided as follows. The financing institution must:

- Decide on the way of implementation and extent of the assessment.
- Instruct and advise the applicant in carrying out the assessment.
- Review the adequacy of the assessment and the environmental information provided.
- Take the results of the assessment into account in decision-making (documentation)
- Follow up, monitor and evaluate realisation of the results of the assessment in practise and if necessary develop its assessment procedure.
- Inform and train potential applicants and other stakeholders concerning its assessment process.

The main objective of the applicant is to carry out/pay for the studies and comply with the environmental commitments in the future.

The essential tasks of an EA process, i.e. screening, scoping and studies, review and decision and monitoring, have been well covered in the foreign institutions used as examples, at least based on their guidelines. The Finnish assessment processes are in this aspect notably more inaccurate and unsystematic. Also the documentation of the EA, which is the basis of an effective stakeholder participation and information disclosure as well as informs the decision-maker, is inadequately performed. The essential tasks of the process are only partly carried out. One reason for the situation is at least that the assessment processes have been planned and instructed inadequately.

6.2 Ideas for development

General setting for research and development

Empirical projects were not directly analysed in this study although general information about practice was gathered from the experts interviewed. The results are clear but give just an overall picture related to the world-wide EA-principles and good quality EA-systems of the foreign financial institutions. Thus it is necessary to deepen understanding about the EA-practice of the Finnish cases, which requires research and development efforts. Preferably this should be closely connected with training of the personnel at the institutions. One approach is a joint project which might be co-ordinated and partly financed by the Ministry for Foreign Affairs. The project would bring together the institutions to discuss EA-developments.

While some general principles and maybe even guidelines could be jointly agreed, the details of the EA-systems need to be tailored for each and every institution. An institution’s special features of operation, organisation and ways of decision-making must be taken into account in the development of environmental assessment in the forms of export and investment promotion. In this kind of research and development work, the best results can be achieved by actively involving the whole personnel as well as stakeholders. Equally important as the documents produced is the process that clarifies the EA for the participants and ensures that they commit to this development.

Partnership

The Finnish institutions could greatly benefit if they widened their present contacts in banking and other business to include EA-systems. Also new contacts for instance with the institutions presented in this study might be very beneficial.

Business secrets and stakeholder participation

The obvious question in the proposed research and development efforts is the banker’s duty of secrecy. Keeping it is of course important in many businesses. An obvious example on this is high technology. Business secrets or information restriction is a widely accepted principle in the society, but it seems that in some cases the secrecy has been vastly overdone. A more reflected and clear approach is needed when stakeholder participation is developed. This approach could certainly be put together by a limited team from representatives of the institutions together with e.g. university experts of that field. One example of dealing with the question

is the approach of OPIC which requires that the information provided in the credit application can be made public i.e. it is the applicant who is responsible for information restriction.

Learning by doing

The development could be carried out as follows:

- EA is developed within actual projects (according to the learning by doing-principle) for example so that in the decision-making process concerning a project the persons in charge of the preparation for a decision, and at the suitable stages of a project, also the management discusses with the EA experts. The final purpose of the discussions is to develop the assessment practise by learning together.
- Based on the development carried out in connection with the projects, assessment guidelines are prepared. These guidelines are developed further as more experience is gained.
- Training and information disclosure is used for ensuring that the staff and the decision-makers understand and know the assessment practise and are able to develop it. This kind of principle of learning by doing together with the whole staff has been found especially good in these types of reforms.

Co-ordination and informing

The Ministry for Foreign Affairs can support the assessment of environmental impacts in the forms of export and investment promotion that were included in this study, in the following ways:

- by defining the environmental goals of development co-operation policy more clearly in regard to Finnfund's operation, granting EIT appropriation and concessional credits.
- by producing information that supports EA, for example:
 - assessment guides for the typical projects of the important fields of exports
 - country or region specific reviews of the state of the environment and urgent problems, information about environmental administration, environmental legislation and compliance with it.
 - foreign sources of information (publications, Internet resources etc.), experiences and examples
- by providing links in their www-pages to the www-pages of institutions specialised in EA and to foreign banks' EA related pages as well as to other Internet resources.
- by organising EA training, e.g. conferences on current issues especially for the institutions granting financing. These conferences could include lectures given by experts in the field.

Study of EA in OECD-term credit system

When studying the case of concessional credits of Leonia Corporate Bank it became obvious that a large number of the export credits are so called OECD-term export credits within the Fide Ltd. administrated interest equalisation of export credits. Part of the projects funded within this facility are located in developing countries and might have significant environmental impacts. Since these credits were not a subject to this study, it is proposed that a separate study concerning the EA in OECD term credit system will be conducted.

ANNEX I.

LIST OF PERSONS CONSULTED

Finnfund

Mr. Markku Pekonen, Managing Director
Mr. Kalevi Hiltunen, Divisional Manager
Mr. Matti Kerppola, Divisional Manager

Finnish Export Credit (Leonida Corporate Bank)

Mr. Juhani Koskiniemi, Senior Manager
Ms. Eeva Orpana, Manager

Finnish Guarantee Board

Mr. Eero Timonen, Deputy Managing Director
Mr. Pekka Penttinen, Director
Mr. Kari Korhonen, Adviser

**Ministry for Foreign Affairs of Finland
Department for External Economic Relations**

Mr. Arto Kurittu, Ambassador
Ms. Hilppa-Liisa Heinämaa, Attaché

**Ministry for Foreign Affairs of Finland
Department for International Development Cooperation**

Mr. Harri Sallinen, Second Secretary
Mr. Pekka Salminen, Environmental Adviser

ANNEX 2.

THE MAIN FEATURES OF ENVIRONMENTAL IMPACT ASSESSMENT IN CHINA, INDONESIA AND INDIA

Environmental impact assessment in China

China's programme in the field of EIA has been evolving since the early 1970's. The first environmental protection activities were characterised by regional environmental quality appraisals, but in the past 15 years EIAs have been incorporated into China's national laws. EIAs have been established as institutional requirements for all infrastructure, medium- and large-sized projects. The EIA framework has now been refined and standardised to meet international requirements. At present EIA can be enforced by law, as it is one of the provisions of the Chinese Environment Protection Law. The latter requires that project designs can only be approved by planning committees following approval of the EIA report; however, current EIA requirements are restricted to construction and regional developing projects. To ensure that EIAs meet certain minimum standards in performance, only qualified institutions undertaking EIAs have been granted certificates to practice. (UNEP 1994.)

Article 13 of the Environmental Protection Law of the Peoples Republic of China, adopted in 1989 states that "An environmental impact statement of a construction project shall include an assessment of the pollution and impact of the construction project on the environment and the planning department shall not approve the assignment study until the project's environmental impact statement has been approved" (Pengcheng et al. 1993).

There are also several government documents, which stipulate in more detail the management of environmental impact assessment. According to them the main points are: EIA takes place in feasibility study phase where preventive and control measures as well as re-siting can be considered, the governmental assessment authority carries out the assessment, the environmental assessment statement must pass through a review and approval procedures, and the completed environmental facilities must be reported in order to the facility to be allowed to operate. (Pengcheng et al. 1993.)

Environmental impact assessment in Indonesia

The EIA process in Indonesia has been in development since the early 1970's, and it has gradually become more institutionalised within the government agencies. Following the establishment in 1990 of the Environmental Impact Management Agency, Bapedal, it was assigned full EIA implementation responsibility for tasks in development, co-ordination, control and supervision of EIAs. (UNEP 1994.)

The legal basis for EIA dates back to 1982. It was strengthened by Government Regulation No 29 1986, which came into force in 1987 and supplemented by Minister regulations 1987 and 1988. According to these regulations EIA is an in-depth study of the significant impact of a proposed activity and constitutes an element to be considered in the decision-making process. (Danusaputro 1991.)

In addition the regulations stipulate about environmental impact report as a brief assessment, environmental evaluation report as a brief assessment for ongoing activities and environmental evaluation study which is an in-depth study for ongoing activities (Danusaputro, 1991).

The role of EIA as a policy instrument was also strengthened through the establishment of general guidelines by Bapedal. Based on those general guidelines, sectoral departments and non-departmental government agencies prepare EIA guidelines, under the technical advice of Central and Provincial Commissions. Bapedal chairs an interagency technical team to discuss problems, constraints, progress of implementation and to formulate policy administration of the EIA. Licensed consultants are hired by project proponents to prepare the necessary EIA documents. When the proposed projects are not subject to EIA by regulation, they still have to meet certain Standard Operating Procedures, either on an industry or activity specific basis, to minimise negative environmental impacts. (UNEP 1994.)

To enhance public participation, the Indonesian Environmental Forum was created in 1980, providing national level co-ordination to the NGO network. International agencies provide considerable financial assistance for project funding and EIA implementation. The release of funds is usually conditional to the accomplishment of strict EIA requirements. International assistance is often provided to strengthen EIA institutions, development of EIA guidelines, and human resource development programs. (UNEP 1994.)

Environmental impact assessment in India

New industrial development projects in India require clearance from the Ministry of Environment and Forests, as specified under the Environment Protection Act of 1986. The project proponents are required to submit to the Ministry a project report, which should include an EIA, prepared in accordance with the guidelines issued by the Ministry of Environment and Forests. (UNEP 1994.)

At present, EIA is conceived merely as a project level tool to assess the environmental compatibility of the projects in terms of their location, suitability of technology, efficiency in resource utilisation and waste recycling. EIAs are conducted under severe limitations of time, human and financial resources, and data, particularly due to lack of extensive data collection in a vast and extremely variable territory. The most important components of the EIA's analysis are meteorology and air quality, and hydrology and water quality. (UNEP 1994.)

The concept of public participation has recently been adopted on a case by case basis, mainly allowing for public information through the publication of the EIA reports in the national newspapers (UNEP 1994).

The financial costs of the projects are usually borne by the project's authorities. In some cases projects have been financed by the World Bank and the Asian Development Bank, and EIAs have been produced by consultants chosen by the international funding agencies jointly with the project proponents. (UNEP 1994.)

ANNEX 3.

IDENTIFICATION OF THE ENVIRONMENTAL IMPACTS OF EXPORT AND INVESTMENT PROJECTS

The identification of impacts is one of the main tasks of EA. The identification of the impacts aims at systematically and comprehensively listing all the potential impacts of a project and its alternatives as well as the targets of the impacts, in order not to leave out any important factors.

The whole life cycle¹⁸ of a project as well as all the related functions in whole must be taken into account in the identification of the environmental impacts. For example in industrial projects, important factors in addition to the actual production process are especially the following:

- raw material and energy supply
- road network, energy transfer etc.
- transports and other traffic
- waste management
- water management.

It is highly possible that the most important environmental impacts of a project are not the emissions caused by the actual production process. In the developing countries for example factors connected to wood supply for the pulp and paper industry, such as logging of natural forests and replacing them with tree plantations, the decrease of biodiversity, or the local people's rights for the use of the forest are often very significant factors.

Also the proposed site of the project, the current state and nature of the environment, e.g. present environmental load, valuable nature areas and species, population, community structure and other similar site-specific factors. Adequate baseline information is a precondition for comprehensive identification of impacts.

Checklists based on earlier experience, interaction matrices and network charts etc. can be used to assist in the identification. Checklists summarise information and experiences in the potential environmental impacts of a specific type of a project or field and the targets of the impacts that are sensitive to changes. The checklist can be e.g. a list of activities included in the life cycle of a specific type of project and their potential impacts. The principle of interaction matrices is cross tabulation. One axis of the matrix contains the operations that cause impacts and the other axis contains the targets of the impacts. The impacts are described in the squares of the matrix either as verbal descriptions or symbols (see e.g. Figure 1, page 62). Network charts aim at analysing and illustrating the potential chain reactions and interaction of a project's different functions.

There are several tools for the identification of the impacts of industrial projects. For example the Guidelines for Environmental Impact Assessment drawn up by the Department for International Development Cooperation of the Ministry for Foreign Affairs (FINNIDA 1989) include a checklist for industrial projects. The World Bank's Environmental Assessment Sourcebook vol. III (1991) contains project type-specific check lists (e.g. pulp and paper mills, fertiliser plants) of the potential impacts. Also, the

¹⁸ The stages of a project's life cycle are: planning, construction, commissioning, operation, finishing of operation, demolition, and exceptional situations, e.g. accidents or abnormalities in operation.

World Bank's Pollution Prevention and Abatement Handbook (1997)¹⁹ can be used in the identification of the impacts. The handbook contains among other a study of the environmental impacts for over 30 types of industrial projects.

Earlier experience in similar projects can be used in the identification of impacts. In Finland about 20 environmental impact procedures for industrial projects have been carried out based on the Environmental Impact Assessment Procedure Act. The environmental impact assessment programmes and reports of these projects are available for public inspection at the Finnish Environment Institute. The EA documents prepared by the financial institutions belonging to the World Bank Group are available from the World Bank Group Public Information Center. Many of these documents deal with different industrial projects in developing countries.²⁰

An important point is that the identification of impacts is also documented, e.g. in the assessment report. It is thus easy for different stakeholders to check which impacts have been taken into account and which ones have been considered significant and why.

If the identification is carried out together with the stakeholders of the project, mutual information as well as trust is enhanced. In Finland, for example in the environmental impact assessment for the final disposal of spent nuclear fuel, several meetings were arranged in various towns. The stakeholder participation clearly influenced the contents of the EIA.

¹⁹ The handbook is easily available from the Internet at the address: www-esd.worldbank.org/pph/home.htm
²⁰ The documents available at the Public Information Center are also presented on the Internet at www.worldbank.org/html/pic/picdocs.htm#ifc_ers

Proposed Effect on Actions	Plant construc- tion	Forming of kenaf	Use of pesticide, fertilizer	Transport of raw materials	Water intake	Solid waste	Effluent discharge	Emission	Employment
Surface water quality			6 7			4 4	2 8		5 5
Surface water hydrology					1 7				
Air quality	3 6			2 6				4 5	
Firsheries			2 5				2 7		
Aquatic ecology			2 6				2 5		
Terrestrial wildlife habitat	3 4								
Terrestrial wildlife	2 5								
Land-use pattern	5 6	8 7							
Highways/Railways				6 5					
Water supply			3 6				2 7		
Agriculture		7 7							
Housing									7 6
Health						3 5	2 8	2 6	
Socio-economic conditions		10 8							8 8

Figure 1. Example of Leopold's matrix for a pulp mill project (Environmental Impact... 1985, 28). This type of matrices may give a fairly comprehensive overall picture for impact identification but the scaling and weighting of impacts includes several problems and is not recommended here.

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Tiivistelmä

Työn tarkoitus ja sisältö

Tutkimuksessa analysoidaan kuinka viennistä ja investoinneista aiheutuvat ympäristövaikutukset selvitetään päätösten valmistelussa seuraavassa kehitysmahin suuntautuvassa julkisessa viennin ja investointien edistämisessä:

- kehitysyhteistyöhön sisältyvät korkotukiluotot ja teollinen ja kaupallinen yhteistyö (Finnfund ja TTT-määräraha) sekä
- vientitakuutoiminta.

Analyysin perustaksi tutkimuksessa tarkasteltiin ympäristövaikutusten arvioinnin (eng. environmental assessment, lyh. EA) kansainvälisiä periaatteita ja arviointitapoja sekä ympäristövaikutusten arviointia vastaavissa ulkomaisissa päätöksissä. Tarkastelusta saatiin periaatteet rahoituslaitosten tehokkaalle ympäristövaikutusten arvioinnille (EA). Sitten analysoitiin, kuinka periaatteet ilmenevät kotimaisissa julkisen rahoitustuen muodoissa.

Ulkomaisina esimerkkeinä olivat seuraavat viisi julkista rahoituslaitosta, joiden ympäristövaikutusten arviointikäytäntöjä voidaan pitää laadukkaina:

- Yhdysvaltojen valtiollinen vientiluottolaitos (the Export-Import Bank of the United States, Ex-Im Bank)
- Euroopan jälleenrakennus- ja kehityspankki (the European Bank for Reconstruction and Development, EBRD)
- Latinalaisen Amerikan kehityspankki (the Inter-American Development Bank, IDB)
- Kansainvälinen rahoitusyhtiö (the International Finance Corporation, IFC).
- Yhdysvaltojen valtiollinen investointirahoituslaitos (the Overseas Private Investment Corporation, OPIC)

Päätulokset

Ympäristövaikutusten huomioon ottaminen rahoituspäätöksissä edellyttää ympäristövaikutusten arvioinnin (EA) systemaattista käyttöä. EAlla tarkoitetaan arviointitapoja sekä prosessia, joka tarjoaa puitteet informaation hankkimiselle hankkeen ympäristövaikutuksista. EAssa arvioidaan vaikutusten laajuutta ja merkittävyyttä ja haitallisten vaikutusten lieventämismahdollisuuksia sekä eri osapuolten näkemyksiä.

Seuraavassa on kohta kohdalta tarkasteltu työssä muodostettuja yleisiä EA-periaatteita sekä niiden ilmenemistä työn tarkastelukohteissa.

Rahoitusorganisaatiolla tulee olla selkeä sitoumus ympäristövaikutusten huomioon ottamisesta toiminnassaan. Tämä antaa EAlle selkeät puitteet ja aseman päätöksenteossa. Kaikilla työssä tarkastelluilla ulkomaisilla rahoituslaitoksilla on selkeä sitoumus ympäristövaikutusten huomioon ottamisesta toiminnassaan. EAn puitteet ja asema kotimaisissa tarkastelukohteissa on ulkomaisiin esimerkkilaitoksiin verrattuna olennaisesti epäselvempi ja määrittelemättömämpi. Parhaiten asia on ottanut huomioon Finnfund, jolla ainoana tarkastelukohteista, ympäristöpolitiikan pääperiaatteet on esitetty kirjallisesti.

EAn suorittamisesta, sisällöstä ja eri osapuolten vastuista tulee olla selkeät kirjalliset ohjeet. EA on ohjeistettu ulkomaisissa esimerkkilaitoksissa hyvin. Kaikkien esimerkkilaitosten ohjeet ovat helposti rahoituksen hakijoiden ja muiden kiin-

nostuneiden tahojen saatavissa esim. Internetin välityksellä. Kotimaissa tarkastelukohteissa EA ohjeistuksen puutteellisuus on keskeinen ongelma. Ohjeet ovat epäselviä, suppeita tai puuttuvat kokonaan.

Laitoksen on kyettävä hoitamaan sille EA prosessissa kuuluvat tehtävät. Tätä varten laitoksella tulee olla käytössään riittävästi asiantuntemusta EA:n soveltamiseen. Näin voidaan taata EAn ja siinä tuotetun informaation laatu. Kaikilla ulkomaisilla esimerkkilaitoksilla on henkilökunnassaan useita päätoimisia EA- ja ympäristönsuojeluasiantuntijoita. Kotimaissa kohteissa ympäristöasiantuntemuksen puute on ilmeinen. Ympäristökoulutusta on jonkin verran järjestetty. Varsinaiset ympäristöasiantuntijat puuttuvat. Ulkopuolisen ympäristöasiantuntemuksen käyttö ei myöskään ole merkittävää.

EAssa tuotetun informaation julkisuuden ja eri osapuolten osallistumisen avulla arvioinnista muodostuu avoin ja informatiivinen vuorovaikutusprosessi, jossa pyritään eri osapuolten näkemysten välittymiseen ja huomioon ottamiseen. Kaikissa ulkomaisissa esimerkkilaitoksissa erityisesti ympäristövaikutuksiltaan merkittävimpien hankkeiden EA prosessiin sisältyy tiedotusta ja osallistumista. Osallistumisen kehittäminen ja lisääminen on ollut keskeinen aihe IFC:n ja OPIC:n EAn kehittämisessä. Suomalaisissa kohteissa tiedottaminen ja osallistuminen puuttuvat kokonaan.

Ollakseen mahdollisimman kattava EAssa tulee selvittää hankkeen välittömät ja välilliset vaikutukset sekä vaihtoehdot mahdollisimman kattavasti. Kaikissa ulkomaisissa esimerkkilaitoksissa selvitettäviä vaikutuksia ovat ainakin periaatteessa luonnonympäristöön kohdistuvien vaikutusten lisäksi myös inhimilliseen ympäristöön kohdistuvat vaikutukset. Vaihtoehtoja vertaillaan useimmissa laitoksissa ympäristövaikutuksiltaan merkittävimmissä hankkeissa. Ympäristövaikutus-käsitteen tulkinta kotimaissa tarkastelukohteissa vaikuttaa olevan ulkomaisia suppeampi. Lähinnä näytetään painottuvan hankkeen päästöihin ja suoriin luonnonympäristöön kohdistuviin vaikutuksiin. Arviointeihin ei sisälly vaihtoehtotarkasteluja.

EAn tehokas järjestäminen edellyttää arviointiprosessin kunnollista organisoitua ja selkeää vastuunjakoa osapuolten välillä. EAssa tuotetun informaation tulee olla käytettävissä viimeistään rahoituspäätöstä tehtäessä. EA-prosessiin sisältyvät keskeiset tehtävät: a) arviointitarpeen ja tehtävän mukaisten välineiden määrittäminen b) selvitysten yksityiskohtainen rajaus ja toteuttaminen c) tehtyjen selvitysten riittävyyden tarkastaminen ja päätöksenteko sekä d) hankkeen seuranta on kattavasti otettu huomioon ulkomaisissa esimerkkilaitoksissa. Kotimaaiset arviointiprosessit ovat tässä suhteessa huomattavasti karkeampia ja epäsystemaattisempia. Prosessiin elimellisesti kuuluvat tehtävät suoritetaan vain osittain. Eräänä syynä tilanteeseen on ainakin se, että arviointiprosessit on suunniteltu ja ohjeistettu puutteellisesti.

Kehittäminen

Kehittämistyö voitaisiin toteuttaa seuraavasti:

- EAssa kehitetään konkreettisten hankkeiden yhteydessä (learning by doing -periaatteella) esimerkiksi siten, että hankkeita koskeissa päätöstekoprosesseissa etenkin päätösten valmistelijat, mutta sopivissa vaiheissa myös johto keskustelee EA-asiantuntijoiden kanssa. Perimmäisenä tarkoituksena on yhdessä oppien kehittää arviointikäytäntöjä.
- Hankkeiden yhteydessä tehdyn kehittämistyön pohjalta laaditaan arviointiohjeisto, jota edelleen kehitetään kokemusten karttuessa.
- Varmistetaan koulutuksen ja tiedotuksen avulla, että henkilökunta ja päätöksentekijät ymmärtävät ja tuntevat arviointikäytännön sekä voivat kehittää sitä. Tällainen jatkuva oppimisen periaate yhdessä koko henkilökunnan kanssa on juuri tällaisissa uudistuksissa havaittu erittäin hyväksi.

Ulkoasiainministeriön on mahdollista tukea ympäristövaikutusten huomioon ottamista tarkastelluissa viennin ja investointien edistämisen muodoissa seuraavilla tavoilla:

- Selkeyttämällä kehitysyhteistyöpolitiikan ympäristötavoitteita Finnfundin toiminnan sekä korkotukiluottojen ja TTT-määrärahan myöntämisen kannalta.
- Tuottamalla EAa tukevaa informaatiota esimerkiksi:
 - arviointioppaita merkittävien vientialojen hankkeista,
 - maa- tai aluekohtaisia katsauksia ympäristön tilaan ja polttavimpiin ongelmiin, tietoja ympäristöhallinnosta, ympäristölainsäädännöstä ja sen noudattamisesta.
 - ulkomaisista tiedonlähteistä (julkaisut, internet-resurssit jne.), kokemuksista ja esimerkeistä.
- Järjestämällä EAn liittyvää koulutusta, kuten ajankohtaisia neuvottelupäiviä nimenomaan rahoitusta myöntäville tahoille.
- Esittelemällä Internet sivuillaan linkkejä EA-alan laitoksien ja ulkomaisten pankkien asianomaisille www-sivuille sekä muihin internet resursseihin.

Tutkimuksessa arvioitiin rahoituslaitosten ja määrärahojen myöntöperiaatteita, mutta yksittäisiä päätöksiä ei tutkittu. Niistä saatiin yleispiirteinen käsitys vain haastattelujen perusteella. Tulokset ovat selkeitä, mutta karkeita. Käsityksen syventäminen vaatisi tapausanalyysijä. Ne olisi hedelmällisintä tehdä yhdessä ao. organisaatioiden kanssa ja liittää tutkimus ja kehitys kiinteästi koulutukseen.

Tässä tutkimuksessa ei tarkasteltu ns. OECD- eli konsensusehtoisia vienti- ja laivaluottoja. Leonia Yrityspankki Oyj:n analyysi osoitti, että ko. luotot ovat määrältään huomattavia verrattuna mm. korkotukiluottoihin. Hankkeet, joita niistä rahoitetaan sijaitsevat osin kehitysmaissa ja saattavat aiheuttaa merkittäviä ympäristövaikutuksia. Fide Oy:n hallinnoiman korontasausjärjestelmän mukaisia luottoja tulisiikin tarkastella erillisessä tutkimuksessa.

Documentation page

Publisher	Finnish Environment Institute	Date September 1999
Author(s)	Lasse Tallskog, Panu Kontio and Antti Leskinen	
Title of publication	Environmental Assessment in Public Promotion of Exports and Investments to Developing Countries	
Parts of publication/ other project publications		
Abstract	<p>This study analyses how the environmental impacts caused by exports and investments are assessed in the preparation for decisions on the following forms of public promotion of export and investments: pre-mixed concessional credits and industrial and commercial co-operation (Finnfund and EIT appropriation) included in development co-operation and export credit guarantee operations.</p> <p>The framework for the analysis is based on a study of the international principles and tools of environmental assessment as well as on environmental assessment in similar types of decisions made by foreign financing institutions. Based on the investigation, the elements of an effective environmental assessment (EA) were formed for the financing institutions. These elements were then used as a framework for analysing the EA in chosen forms of public financial support to Finnish exports and investments to developing countries.</p> <p>The consideration of environmental impacts in financing decisions requires a systematic application of EA, which provides a framework for gathering and documenting information and views regarding the environmental impacts of a project. Within EA, the importance of the impacts and the scope for enhancing, modifying or mitigating them can be evaluated. An effective organisation of an EA requires proper organisation of the assessment process and clearly defined responsibilities between the partners. The information produced in the EA must be available at the latest for decision-making. The essential tasks of an EA process, i.e. screening, scoping and studies, review and decision and monitoring, have been well covered in the foreign institutions used as examples. The Finnish assessment processes are in this aspect notably more inaccurate and unsystematic. The essential tasks of the process are only partly carried out. One reason for the situation is at least that the assessment processes have been planned and instructed inadequately.</p>	
Keywords	environmental assessment, environmental impact, financing institution, public promotion of export and investments	
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Kuvailulehti

Julkaisija	Suomen ympäristökeskus	Julkaisu-aika syyskuu 1999
Tekijä(t)	Lasse Tallskog, Panu Kontio ja Antti Leskinen	
Julkaisun nimi	Ympäristövaikutusten arviointi julkisessa viennin ja investointien edistämisessä kehitysmaihin	
Julkaisun osat/ muut saman projektin tuottamat julkaisut		
Tiivistelmä	<p>Työssä analysoidaan kuinka viennistä ja investoinneista aiheutuvat ympäristövaikutukset selvitetään päätösten valmistelussa seuraavassa kehitysmaihin suuntautuvassa julkisessa viennin ja investointien edistämisessä: vientitakuutoiminta, kehitysyhteistyöhön sisältyvät korkotukiluotot ja teollinen ja kaupallinen yhteistyö (Finnfund ja TTT-määräraha).</p> <p>Analyysin perustaksi tarkasteltiin ympäristövaikutusten arvioinnin kansainvälisiä periaatteita ja arviointitapoja sekä ympäristövaikutusten arviointia vastaavissa ulkomaisissa päätöksissä. Tarkastelusta saatiin periaatteet rahoituslaitosten tehokkaalle ympäristövaikutusten arvioinnille engl. Environmental Assessment (EA). Sitten analysoitiin kuinka periaatteet ilmenevät kotimaisissa julkisen rahoitustuen muodoissa.</p> <p>Ympäristövaikutusten huomioon ottaminen rahoituspäätöksissä edellyttää ympäristövaikutusten arvioinnin systemaattista käyttöä. EAssa arvioidaan vaikutusten laajuutta ja merkittävyyttä ja haitallisten vaikutusten lieventämismahdollisuuksia sekä eri osapuolten näkemyksiä. EAn tehokas järjestäminen edellyttää arviointiprosessin kunnollista organisointia ja selkeää vastuunjako osapuolten välillä. EAssa tuotetun informaation tulee olla käytettävissä viimeistään rahoituspäätöstä tehtäessä. EA-prosessiin sisältyvät keskeiset tehtävät: a) arviointitarpeen ja tehtävän mukaisten välineiden määrittäminen b) selvitysten yksityiskohtainen rajaaminen c) tehtyjen selvitysten riittävyyden tarkastaminen ja päätöksenteko sekä d) hankkeen seuranta on kattavasti otettu huomioon ulkomaisissa esimerkkilaitoksissa. Kotimaiset arviointiprosessit ovat tässä suhteessa huomattavasti karkeampia ja epäsystemaattisempia. Prosessiin elimellisesti kuuluvat tehtävät suoritetaan vain osittain. Eräänä syynä tilanteeseen on ainakin se, että arviointiprosessit on suunniteltu ja ohjeistettu puutteellisesti.</p>	
Asiasanat	ympäristövaikutusten arviointi, ympäristövaikutus, rahoituslaitos, julkinen viennin ja investointien edistäminen	
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Presentationssblad

Utgivare	Finlands miljöcentral	Datum September 1999
Författare	Lasse Tallskog, Panu Kontio och Antti Leskinen	
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Sammandrag	<p>I denna studie analyseras hur miljökonsekvenser bedöms vid beredningen av offentliga beslut om stöd för export och investeringar till utvecklingsländer. Följande typer beslut utreds: exportgarantier, utvecklings- och räntestödkrediter och ekonomisk, industriell och teknologisk samarbetet (Finnfund och TTT-anslag).</p> <p>Studiens referensram baseras sig på genomgång av de internationella principerna och metoderna för bedömning av miljöeffekter samt på praxis för dylika miljöbedömningar i motsvarande beslutssituationer i andra länder. På basen av denna genomgång definierades elementen i en effektiv bedömning av miljöeffekter för finansiella institutioner. De inhemska offentliga institutionernas praxis jämfördes sedan med detta element.</p> <p>Beaktandet av miljöeffekter i beslutsfattandet om finansiering förutsätter en systematisk användning av miljökonsekvensbedömningar. Dessa bedömningar utgör en bas för insamling och dokumentering av information och synpunkter om ett projekts miljöeffekter. En dylik bedömning innefattar en utvärdering av effekternas omfattning och betydelse, möjligheterna att reducera de negativa effekterna samt olika parter åsikter om dessa. En effektivt organiserad bedömning av miljöeffekter förutsätter en väl organiserad process samt en klar ansvarsfördelning mellan parterna. Den information miljökonsekvensbedömningen producerar bör finnas tillgänglig senast då finansieringsbeslutet görs.</p> <p>De utländska institutioner som utgjorde referensgruppen har på ett förtjänstfullt sätt innefattat miljökonsekvensbedömningarnas centrala element, dvs. a) en definition av utredningsbehovet och de för detta ändamål lämpliga metoderna, b) en detaljerad avgränsning av utredningarna och deras genomförande, c) kontroll av de utförda utredningarna och beslutsfattandet samt d) uppföljning av projektet. De finländska bedömningsprocesserna är, i förhållande till dessa kriterier, osystematiska och betydligt mindre detaljerade. De centrala elementen som bör vara en del av bedömningsprocessen har bara delvis blivit genomförda. En orsak till detta är att bedömningsprocesserna varit bristfälligt planerade och instruerade.</p>	
Nyckelord	miljökonsekvensbedömning, miljöeffekt, institutionerna för utvecklingsfinansiering, offentliga stöd för export och investeringar	
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The Finnish Environment



Environmental assessment in public promotion of exports and investments to development countries

Capital from industrialised countries has the key position in implementing sustainable development to developing countries.

Participation of public credit and guarantee institutions and other public organisations is still essential in many cases in order to arrange financing for projects to developing countries. Public financiers are able to influence on how ecological sustainability is considered in the investment projects.

In this study the environmental assessment systems of selected financial institutions are described and compared to the respective Finnish institutions that promote export and investment to developing countries.



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